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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2013**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

or

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number **0-55139**

# QUATERRA RESOURCES INC.

(Exact name of Registrant as specified in its charter)

**British Columbia, Canada**
(Jurisdiction of incorporation or organization)

**1100 – 1199 West Hastings Street, Vancouver, British Columbia, Canada V6E 3T5**
(Address of principal executive offices)

**Scott B. Hean, Chief Financial Officer**
**1100 – 1199 West Hastings Street, Vancouver, British Columbia, Canada V6E 3T5**
**Phone (604) 681-9059 and Fax (604) 688-4670**
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **Common Shares, no par value**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.
**193,479,416 common shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [X] No

If this report is an annual or transition report, i ndicate by check mark if the registrant is not requ ired to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
[ ] Yes [X] No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Secti on 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was require d to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [ ] No

Indicate by check mark whether the registrant has s ubmitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant t o Rule 405 of Regulation S-T (§232.405 of this chap ter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ ] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark which basis of accounting th e registration has used to prepare the financial statements included in this filing:

U.S. GAAP [ ]
International Financial Reporting Standards as issued by the International Accounting Standards board [X]
Other [ ]

If "Other" has been checked in response to the prev ious question, indicate by check mark which financi al statement item the registrant has elected to follow.

Item 17 [ ]
Item 18 [ ]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report contains forward-looking st atements about our operations and planned future ac tivities within the meaning of the safe harbor for such statements under the Private Securi ties Litigation Reform Act of 1995. Statements that are not historical fact and relate to predictions, expectations, belief, plans, projectio ns, objectives, assumptions, future events, or futu re performance may be "forward-looking statements." Forward-looking statements may be iden tified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", "plan" or similar words. You are cautioned not to place undue reliance on fo rward-looking statements. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- our ability to finance the continued exploration of our mineral properties;
- our history of losses and expectation of future losses;
- our ability to obtain adequate financing for our planned development activities;
- uncertainty of production at our mineral exploration properties;
- the lack of Proven Mineral Reserves or Probable Min eral Reserves;
- the impact governmental regulations, including environmental regulations; and
- commodity price fluctuations.

These forward-looking statements are based on the beliefs of our management as well as on assumpt ions made by and information currently available to us at the time such statemen ts were made. We undertake no obligation to update forward-looking statements should circumstances or estimates or opinions change.

## DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

Financial Information

All financial information in this annual repor t is prepared in accordance with International Fina ncial Reporting Standards, ("IFRS") as issued by International Accounting Standards Board ("IASB"). IFRS differs in some respects from United States generally accepted accounting principles, ("U.S. GAAP"), and thus our financial statements may not be comparable to finan cial statements of United States companies. The term Canadian generally accepted acc ounting principles ("Canadian GAAP") refers to the accounting principles and standards before the adoption of IFRS.

Resource and Reserve Estimates

None of the Company's properties have Mineral Reserves. Disclosure about the Company's exploratio n properties in this Annual Report on Form 20-F uses the term "Mineral Resources", "Me asured Mineral Resources", "Indicated Mineral Resou rces" and "Inferred Mineral Resources", which are Canadian geological and minin g terms as defined in accordance with National Inst rument 43-101 ("NI 43-101"), standards of disclosure for mineral projects of the Canadian Securities Administrators, set out in the Canadian Institute of Mining (CIM) Standards. These terms are not defined in the U.S. Securities and Exchange Commission (SEC) Industry G uide 7, *Description of Property by Issuers Engaged or to be engaged in Significant Min ing Operations*, and are normally not permitted to be used in repo rts and registration statements filed with the SEC. Accordingly, informa tion contained in this Annual Report on Form 20-F c ontain descriptions of our mineral deposits that may not be comparable to similar info rmation made public by U.S. companies subject to th e reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

*Cautionary Note to U.S. Readers concerning estimate s of Measured Mineral Resources and Indicated Miner al Resources:* This Annual Report on Form 20-F may use the terms "Mineral Reso urces," "Measured Mineral Resource" and "Indicated Mineral Resource." The Company advises U.S. investors that while such term s are recognized and permitted under Canadian regul ations, the SEC does not recognize them. U.S. investors are cautioned not to assume th at any part or all of the Mineral Resources in thes e categories will ever be converted into Mineral Reserves.

*Cautionary Note to U.S. Readers concerning estimates of Inferred Mineral Resources:* This Annual Report on Form 20-F may use the term "Inferred Mineral Resource." The Company advises U. S. investors that while such a term is recognized and permitted under Canadian regulations, the SEC does not recognize it. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that any part of all of the Inferred Mineral Resources exist, or is economically or legally mineable.

## EMERGING GROWTH COMPANY STATUS

The Company is an "emerging growth company" as defined in section 3(a) of the U.S. Securities Exchange Act of 1934 (as amended by the U.S. Jumpstart Our Business Startups Act (the "JOBS Act"), enacted on April 5, 2012), and the Company will continue to qualify as an "emerging growth company" until the earliest to occur of: (a) the last day of the fiscal year during which the Company has total annual gross revenues of US$1,000,000,000 (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of common equity securities of the Company pursuant to an effective registration statement under the U.S. Securities Act of 1933, as amended; (c) the date on which the Company has, during the previous three-year period, issued more than US$1,000,000,000 in non-convertible debt; or (d) the date on which the Company is deemed to be a 'large accelerated filer', as defined in Rule 12b–2 of the U.S. Securities Exchange Act of 1934, as amended. The Company expects that it will continue to qualify as an emerging growth company for the foreseeable future.

## GLOSSARY OF GEOLOGIC AND MINING TERMS

**Anomaly:** A geological feature distinguished by geological, geochemical or geophysical means, which is detectably different than the general surroundings and is sometimes of potential economic value.

**Breccia:** Rock consisting of more or less angular fragments in a matrix of finer-grained material or cementing material.

**Diamond drill:** A type of drill in which the cutting is done by abrasion using diamonds embedded in a matrix rather than by percussion. The drill cuts a core of rock which is recovered in long cylindrical sections.

**Dilution:** Process whereby unwanted gangue or waste rock is mixed with ore during mining.

**Epithermal**: A class of ore deposits that form generally less than 1 km from surface. These deposits, which can host economic quantities of gold, silver, copper, lead and zinc are formed as a result of the precipitation of ore minerals from up-welling hydrothermal fluids. There are several classes of epithermal deposits that are defined on the basis of fluid chemistry and resulting alteration and ore mineralogy. Fluid chemistry is largely controlled by the proximity to igneous intrusive rocks and as a result igneous fluid content.

**Extrusive Rock:** Igneous rock that has solidified on the earth's surface from volcanic action.

**Fluid inclusion:** A cavity, with or without negative crystal faces, containing one or two fluid phases, and possibly one or more minute crystals, in a host crystal. If two fluid phases are present, the vapor phase (bubble) may show Brownian motion.

**Folds:** Flexures in bedded or layered rock formed when forces are applied gradually to rocks over a long period of time.

**Fracture:** Breaks in a rock, usually due to intensive folding or faulting.

**Gambusino:** An individual miner working without machinery.

**Gangue:** Term used to describe worthless minerals or rock waste mixed in with the valuable minerals.

**Gouge:** The finely ground rock that result from the abrasion along a fault surface.

**Grade:** The concentration of each ore metal in a rock sampl e, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/t) or ounces per ton (oz/t). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.

**Hectare:** A square of 100 metres on each side.

**Indicated Mineral Resource:** An Indicated Mineral Resource is that part of a Min eral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appro priate application of technical and economic parameters, to support mine planning and evaluation of the economic viability o f the deposit. The estimate is based on detailed and reliable expl oration and testing information gathered through ap propriate techniques from locations such as out-crops, trench es, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**Inferred Mineral Resource:** An Inferred Mineral Resource is that part of a Mine ral Resource for which quantity and grade or qualit y can be estimated on the basis of geological evidence and l imited sampling and reasonably assumed, but not ver ified, geological and grade continuity. The estimate is based on limi ted information and sampling gathered through appro priate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

**Lithology:** The physical characteristics of a rock or a rock formation.

**Mafic:** A term used to describe ferromagnesian minerals. Ro cks composed mainly of ferromagnesian minerals are correctly termed melanocratic.

**Massive:** A term used to describe sulfide ores containing mor e than 50% volume of sulphide.

**Measured Mineral Resource:** A Measured Mineral Resource is that part of a Miner al Resource for which quantity, grade or quality, d ensities, shape, physical characteristics are so well established th at they can be estimated with confidence sufficient to allow the appropriate application of technical and economic p arameters, to support production planning and evalu ation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, samplin g and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, w orkings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

**Mineral Deposit or Mineralized Material:** A mineralized body which has been intersected by su fficient closely spaced drill holes and or undergro und sampling to support sufficient tonnage and average grade of met al(s) to warrant further exploration-development wo rk. This deposit does not qualify as a commercially mineable ore bod y (Reserves), as prescribed under SEC standards, un til a final and comprehensive economic, technical, and legal feasibility study based upon the test results is concluded.

**Mineral Resource:** A Mineral Resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable pros pects for economic extraction. The location, quantity, grade, geologic al characteristics and continuity of a Mineral Reso urce are known, estimated or interpreted from specific geological evidence and knowledge.

**Mineral Reserve:** A Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demons trated by at least a Preliminary Feasibility Study. This Study must include

adequate information on mining, processing, metallu rgical, economic and other relevant factors that de monstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting mate rials and allowances for losses that may occur when the material is mined.

**Mineralization:** Usually implies minerals of value occurring in rocks.

**Ore:** A natural aggregate of one or more minerals which m ay be mined and sold at a profit, or from which som e part may be profitably separated.

**Probable Mineral Reserve:** A Probable Mineral Reserve is the economically mine able part of an Indicated, and in some circumstance s a Measured, Mineral Resource demonstrated by at least a Prelimi nary Feasibility Study. This study must include ade quate information on mining, processing, metallurgical, e conomic, and other relevant factors that demonstrat e, at the time of reporting, that economic extraction can be justified.

**Properties as prospects:** A property is a claim owned by a company and a prospect is a claim in which a company holds an interest.

**Proven Mineral Reserve:** A Proven Mineral Reserve is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This study must incl ude adequate information on mining, processing, met allurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

**Reserve(s):** A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sol d at a profit, or from which some part may be profitably separated.

**Reverse circulation drill:** A rotary percussion drill in which the drilling mud and cuttings return to the surface through the drill pipe.

**Tailings:** Material rejected from a mill after recoverable valuable minerals have been extracted.

## GLOSSARY OF ABBREVIATIONS

| | |
|---|---|
| **Ag:** | Silver |
| **Ag gm/t:** | Silver grade measured in grams per metric tonne |
| **AMR:** | Advance minimum royalty payments |
| **Au:** | Gold |
| **Au gm/t:** | Gold grade measured in grams per metric tonne |
| **Ba:** | Barium |
| **Co:** | Cobalt |
| **CSAMT:** | Controlled source audio-frequency magneto telluric geophysical survey |
| **Cu:** | Copper |
| **EIS:** | Environmental Impact Statement |
| **Fe:** | Iron |
| **43-101:** | Canadian National Instrument 43-101 |
| **gpm:** | gallons per minute |
| **gpt:** | grams per tonne |
| **g/t:** | grams per tonne |
| **IP:** | Induced Polarization geophysical survey |
| **m.y:** | Million years |
| **Ni:** | Nickel |
| **NSR:** | Net smelter return royalty |
| **Oz:** | Troy ounce |

**oz/t or opt:** Ounces per ton.
**Pb:** Lead
**Pd:** Palladium
**PGE:** Platinum Group Element
**PGM:** Platinum group minerals
**PPB:** Parts per billion
**PPM:** Parts per million
**Pt:** Platinum
**S:** Sulphur
**TD:** Total depth of a drill hole.
**tpd:** Tonnes per day
**U3O8:** Uranium oxide known as "yellow cake".
**VLF:** Very low frequency electromagnetic geophysical survey
**VMS:** Volcanogenic massive sulphide

## CONVERSION TABLES

**Conversion Table**

| Imperial | | | Metric |
|---|---|---|---|
| 1 Acre | = | 0.404686 | Hectares |
| 1 Foot | = | 0.304800 | Metres |
| 1 Mile | = | 1.609344 | Kilometres |
| 1 Ton | = | 0.907185 | Tonnes |
| 1 Ounce (troy)/ton | = | 34.285700 | Grams/Tonne |

**Precious metal units and conversion factors**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ppb | - Part per billion | 1 | ppb | = | 0.0010 | ppm | = | 0.000030 | oz/t |
| ppm | - Part per million | 100 | ppb | = | 0.1000 | ppm | = | 0.002920 | oz/t |
| oz | - Ounce (troy) | 10,000 | ppb | = | 10.0000 | ppm | = | 0.291670 | oz/t |
| oz/t | - Ounce per ton (avdp.) | 1 | ppm | = | 1.0000 | ug/g | = | 1.000000 | g/tonne |
| g | - Gram | | | | | | | | |
| g/tonne | - gram per metric ton | 1 | oz/t | = | 34.2857 | ppm | | | |
| mg | - milligram | 1 | Carat | = | 41.6660 | mg/g | | | |
| kg | - kilogram | 1 | ton (avdp.) | = | 907.1848 | kg | | | |
| ug | - microgram | 1 | oz (troy) | = | 31.1035 | g | | | |

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AN D ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

**A. Selected Financial Data** - Unless otherwise indicated, all monetary referenc es herein are denominated in Canadian Dollars. References to "$" or "Dollars" are to Canadian Doll ars and references to "US$" or "U.S. Dollars" are t o United States Dollars.

The following table sets forth our selected consoli dated financial data for the five years ended Decem ber 31, 2013 prepared in accordance with IFRS as issued by IASB for the years ended Dec ember 31, 2013, 2012, 2011 and 2010 and Canadian GA AP for the years ended December 31, 2009. This information should be read in conjunction with our consolidated financial stat ements included in Item 17 of this annual report.

| | Fiscal year ended December 31, | | | |
|---|---|---|---|---|
| **IFRS** | **2013** | **2012** | **2011** | **2010** |
| Sales or operating revenues | Nil | Nil | Nil | Nil |
| Net (loss) for the year | (28,817,916) | (4,853,976) | (11,264,539) | (2,769,248) |
| (Loss) per common share - basic and diluted | (0.17) | (0.03) | (0.08) | (0.02) |
| Total assets | 46,237,523 | 73,312,971 | 73,610,822 | 65,460,923 |
| Net assets | 43,816,046 | 71,855,193 | 71,733,234 | 64,564,355 |
| Capital stock | 116,135,532 | 115,816,740 | 111,923,521 | 95,800,950 |
| Number of common shares outstanding | 193,479,416 | 162,990,836 | 152,353,283 | 136,464,161 |
| Derivative liability - warrants | 1,191,784 | 774,673 | - | - |
| Cash dividends per common share | NIl | Nil | Nil | Nil |

| | Fiscal year ended December 31, |
|---|---|
| **Canadian GAAP [1]** | **2009** |
| Sales or operating revenues | Nil |
| Net (loss) for the year | (6,988,414) |
| (Loss) per common share - basic and diluted | (0.08) |
| Total assets | 41,872,497 |
| Net assets | 40,993,110 |
| Capital stock | 63,168,843 |
| Number of common shares outstanding | 111,459,371 |
| Long-term debt | - |

(1) The adoption of IFRS by the Company d id not require restatement of fiscal years prior to 2010.

Exchange Rate Data

For the past five fiscal years ended December 31, 2 013, the average rates calculated by using the aver age of the exchange rates on the last day of each month during the period) and for each of th e previous six months, the high and low exchange ra tes for Canadian dollars expressed in terms of U.S. dollars (i.e., U.S. dollars required to purchase one Canadian dollar). The information w as provided by the Bank of Canada:

| Financial Year | Average Exchange Rate |
|---|---|
| 2013 | 0.9699 |
| 2012 | 0.998917 |
| 2011 | 0.988667 |
| 2010 | 1.0295 |
| 2009 | 1.14075 |

| Financial Month | Exchange Rate | |
|---|---|---|
| | High | Low |
| February 2014 | 0.9130 | 0.8977 |
| January 2014 | 0.9422 | 0.8952 |
| December 2013 | 0.9454 | 0.9348 |
| November 2013 | 0.9602 | 0.9435 |
| October 2013 | 0.9724 | 0.9564 |
| September 2013 | 0.9768 | 0.9494 |

On March 24, 2014, the ending exchange rate for the conversion of one U.S. dollar into one Canadian dollar was 1.1195.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

RISK FACTORS

*Investing in common stock of Quaterra Resources Inc. (the "Company" or Quaterra") involves a high degree of risk. Before deciding to purchase, hold or sell the Company's common stock, you should carefully consider the risks described below in addition to the cautionary statements and risks described elsewhere and the other information contained in this 20-F and in the Company's other filings with securities regulatory authorities. The risks and uncertainties described below are not the Company's only ones. Additional risks and uncertainties not presently known to Quaterra or that Quaterra currently deems immaterial may also impair the Company's business operations. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Quaterra, the Company's business, financial condition, results of operations and/or liquidity could be seriously harmed, which could cause the Company's actual results to vary materially from recent results or from the Company's anticipated future results. In addition, the trading price of the Company's common stock could decline due to any of these known or unknown risks or uncertainties, and you could lose all or part of your investment.*

**The Company may not have sufficient funds to complete further exploration programs.**

The Company does not generate operating revenue and must finance exploration activity by other means, such as raising funds through the sale of equity, debt, or property interests. The Company cannot provide any assurance that additional funding will be available for further exploration of the Company's projects or to fulfill anticipated obligations under existing property agreements. As of December 31, 2013, the Company had working capital deficiency of $193,943 which includes a US$600,000 loan owed to Mr. Thomas Patton, Chairman of the board, and, as of March 24, 2014, the Company has cash on hand of approximately $700,000.

Although management is confident that it will be able to raise sufficient funds there is no assurance at the date these consolidated financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty, which casts substantial doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Management has planned levels of exploration spendi ng on the Company's properties with an expectation that future capital raises would provide the necessary funding, which includes equit y financing, joint venture partners' contributions, and/or realizing the carrying amount through the sale of mineral property interests.

**Future equity transactions could cause dilution of present and prospective shareholders.**

Historically, the Company has financed operations t hrough private placements. In order to finance futu re operations and development efforts, the Company may raise funds through the issuance of common shares or the securities convertible into c ommon shares through private placements or public offerings. The common shares i n these financings often are sold at a discount to market prices, and the exercise price of the warrants sometimes is at or may be lower than m arket prices. The Company cannot predict the size o f future issues of common shares or the issue of securities convertible into common sha res or the effect, if any, that issues and sales of the Company's common shares will have on the market price of its common shares. Any trans action involving the issue of common shares, or sec urities or convertible into common shares, could result in dilution, possibly substant ial, to present and prospective holders of common s hares, either at the time of the financing or subsequently when restrictions if any expire and the common shares are resold into the public marke ts. Similarly, the Company cannot predict the value of any asset sale nor its effect on the market price of its common shares.

**The Company has a history of losses and expects to incur losses for the foreseeable future.**

The Company has incurred losses during each of the prior five years in the amounts of $55,194,093. As of December 31, 2013, the Company had an accumulated deficit of $91,799,520. Quaterra expects to continue to incur losses unless and unt il such time as one or more of the properties enter into commercial production and gen erate sufficient revenues to fund the Company's continuing operations.

**The Company's exploration programs may not result in a commercial mining operation.**

Mineral exploration involves significant risk becau se few properties that are explored contain bodies of ore that would be commercially economic to develop into producing mines. Quaterra' s mineral properties are without a known body of co mmercial ore and the proposed programs are an exploratory search for ore. The Com pany cannot provide any assurance that current expl oration programs will result in any commercial mining operation. If the exploration pro grams do not result in the discovery of commercial ore, the Company will be required to acquire additional properties and write-off all investments in existing properties.

**The Company does not have Proven Mineral Reserves o r Probable Mineral Reserves.**

The Company has not established the presence of any Proven Mineral Reserves or Probable Mineral Reserv es (as such terms are defined in NI 43-101 of the Canadian Securities Administrators ); please refer to "Disclosure of Mineral Resources " in the Preliminary Notes to this annual report) at any of Quaterra's mineral properties. The Company cannot provide any assurance that future feasibility studies will establish Proven Mineral Reserves or Probable Mineral Reserve s at Quaterra's properties. The failure to establish Proven Mineral Reserves or Probable Mineral Reserves could restrict the Company's ability to successfully implement its strategies for long-term growth.

**Mineral resource estimates are subject to updates w hich may differ from prior estimates and adversely affect the value of the Company's properties.**

The estimating of mineralization is a subjective pr ocess and the accuracy of estimates is a function o f the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpr eting engineering and geological information. There is significant uncertainty in an y mineralization estimate, and the actual deposits encountered and the economic viability of mining a deposit may differ significantly from our estimates. From time to time, Quaterra obtains upda ted resource estimates and technical reports related to the Company's mineral properties.

**The Company's future business and financial condition are dependent upon resource prices.**

Resource prices have fluctuated widely, particularl y in recent years, and are affected by numerous fac tors beyond the Company's control. These include international economic and political trends, inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and in creased production due to new and improved extracti on and production methods. These factors may negatively affect the marketability of any ore or minerals discovered at, and extracted fr om, Quaterra's properties. If, because of a sustained decline in prices, financing were not ava ilable to meet cash operating costs, the feasibilit y of continuing operations would be evaluated and if warranted, would be discontinued.

**The Company's common share price has been and may continue to be subject to volatility.**

U.S. and Canadian securities markets in recent years have experienced high levels of price and volume volatility, and the market price of securities of many companies have experience wide fluctuation in price which have not necessarily been related to the operating performance underlying assets values or prospects of such companies. Factors unrelated to Quaterra's financial performance or prospects include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The Company's share price, financial condition, and results of operations are all also likely to be significantly affected by short-term changes in uranium, gold, silver and copper prices. Continual fluctuations in metal prices may occur. As a result of any of these factors, the market price of the Company's shares at any given point in time may be subject to wide swings unrelated to any direct action by Quaterra's operations.

**Some of the Company's directors and officers may have conflicts of interest due to their involvement with other natural resource companies.**

Some the Company's directors and officers are directors or officers of other natural resource or mining-related companies and these associations may give rise to conflicts of interest from time to time. As a result of these conflicts of interest, Quaterra may miss the opportunity to participate in certain transactions, which may have a material, adverse effect on the Company's financial position.

**The Company may experience difficulty attracting and retaining qualified management to grow Quaterra's business.**

The Company is dependent on the services of key executives including the Chief Executive Officer and other highly skilled and experienced executives and personnel focused on advancing corporate objectives as well as the identification of new opportunities for growth and funding. Due to the Company's relatively small size, the loss of these persons or the Quaterra's inability to attract and retain additional highly skilled employees required for activities may have a material adverse effect on the Company's business and financial condition.

**The Company may be limited in its ability to manage growth.**

Should the Company be successful in its efforts to develop mineral properties or to raise capital for such development or for the development of other mining ventures, it may experience significant growth in operations. Any expansion of the Company's business would place demands on management, operational capacity, and financial resources. The Company anticipates that it will need to recruit qualified personnel in all areas of operations. There can be no assurance that Quaterra will be effective in retaining current personnel or attracting and retaining additional qualified personnel, expanding operational capacity or otherwise managing growth. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

**Environmental and other regulatory requirements may limit the Company's operations and increase expenses.**

The Company's operations are subject to environmental regulations promulgated by various Canadian, U.S., and Mexican government agencies. Claims and current and future operations will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies such as ours that engage in exploration activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Issuance of permits for Quaterra's exploration activities is subject to the discretion of government authorities, and the Company may be unable to obtain or maintain such permits. Permits required for future exploration or development may not be obtainable on reasonable terms or on a timely basis. Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact and cause increases in capital expenditures or require abandonment or delays in exploration.

**Operating hazards associated with mining may expose the Company to liability.**

Mining operations generally involve a high degree of risk, including hazards such as unusual or unexpected geological formations. Operations in which the Company has an interest are subject to all the hazards and risks normally incidental to exploration, development and production of minerals, any of which could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to or loss of life and property, environmental damage and possible legal

liability for any or all damage or loss. The Compan y currently does not maintain standard insurance po licies on Quaterra's properties. The Company may become subject to liability for cave-ins and other hazards for which cannot be fully insured or against which the Company may elect not to insure where premium costs are disprop ortionate to the Company's perception of the releva nt risks. For example, the Company is not currently covered by any form of political risk insurance or any form of environmental liability i nsurance. The payment of such insurance premiums and the incurring of such liabilities would reduce the funds available for exploration activities.

**The Company's properties may be subject to uncertain title.**

The acquisition of title to resource properties or interest therein is a very detailed and time consum ing process. Title to and the area of resource concessions may be disputed. The Company h as investigated title to all of its mineral propert ies and, to the best of the Company's knowledge, title to all of Quaterra's properties ar e in good standing. The properties may be subject t o prior, and in some cases, not fully ascertainable unregistered agreements or transfers, and title may be affected by undetected defects. Title may be based upon interpretation of a country's laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change.

**Enforcement of judgments or bringing actions outsid e the United States against the Company and its dir ectors and officers may be difficult.**

Quaterra is organized under the laws of and headqua rtered in British Columbia, Canada, and the majorit y of the Company's directors and officers are not citizens or residents of the U.S. In addition, a substantial part of the Company's as sets are located outside the U.S. and Canada. As a result, it may be difficult or impossi ble for you to (a) enforce in courts outside the U. S. judgments against the Company and a majority of Quaterra's directors and officers, obtained in U.S. courts based upon the civil liability provisions of U.S. federal securities laws or (b) bring in courts outside the U.S. an original ac tion against the Company and its directors and offi cers to enforce liabilities based upon such U.S. securities laws.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

Quaterra was incorporated under the Company Act (Br itish Columbia) on May 11, 1993 originally under th e name Acquaterre Mineral Development Ltd. On November 30, 1993, the Company changed its name to Aquaterre Mineral Development L td. and ultimately became Quaterra Resources Inc. on October 23, 1997. Quater ra's domicile is British Columbia, Canada and the C ompany operates under the British Columbia Business Corporations Act SBC 2002 Chapter 57.

On March 4, 1997, the Company increased its authori zed capital from 20,000,000 common shares without p ar value to 100,000,000 common shares without par value.

On October 23, 1997, the Company consolidated its i ssued and un-issued share capital on the basis of f ive pre-consolidation shares for one post-consolidation share, and increased its authorized capital to 100,000,000 common shares without pa r value.

On August 3, 1998, the Company cancelled its previo us form of Articles and adopted a new form of Artic les.

On April 25, 2005, the Company completed the transi tion procedures in accordance with the Business Cor porations Act (British Columbia), (the "New Act").

On June 17, 2005, the Company increased the number of common shares which were authorized to issue to an unlimited number of common shares and, on June 13, 2005, cancelled its former Articles and adopted new Articles to take advantage of provisions of the New Act. The New Act was adopted in British Columbia on March 29 , 2004 replacing the Company Act (the "Former Act") . The New Act requires the provisions formerly required in the Memorandum to b e in the Company's Articles. The New Act eliminates the requirement for a Memorandum.

The Company's registered office is located at 1710 – 1177 West Hastings Street, Vancouver, B.C. V6E 2L 3. Telephone (604) 641-2764. The Company's head office is located at 1100 – 1199 Wes t Hastings Street, Vancouver, British Columbia, Can ada V6E 3T5. Telephone: (604) 684-9384, Facsimile: (604) 641-2740. The Company's website is www.quaterra.com. *We are not including the information contained on o ur website as part of, or incorporating it by reference into, this Annual Report on Form 20-F.*

Since our incorporation, substantially all our capi tal has been deployed to development of our explora tion stage business. We have not undertaken any material mergers or acquisitions oth er than in the ordinary course of business. There h ave been no public takeover offers by third parties with respect to our shares and we have made no public takeover offers with respect to another company's shares.

**B. Business Overview**

On January 1, 2011, the Company entered into an opt ion agreement with North Exploration LLC to acquire 41 mining claims in White Pine County, Nevada, known as Butte Valley property. The Company can earn a 100% interest in the claims by making staged payments totaling US$1 million. The Company has an option at any time to purchase the property for the difference betwee n US$1 million and the sum of amounts previously paid or if the full amounts have been paid under the above the sum of US$1. The pro perty is subject to 2.5% NSR upon commencement of commercial production of which 1% c an be bought down for US$1 million.

On February 7, 2011 Quaterra completed a private pl acement of 3,293,407 units for gross proceeds of US $6.0M (C$5,994,000) received from Goldcorp pursuant to the IFA. Each unit consisted o f one common share and one-half of one share purcha se warrant with an exercise price of $2.27 per full warrant expiring February 7, 2013.

On April 27, 2011, Quaterra completed the purchase of the Yerington property from Arimetco, Inc. Assets purchased include 4.2 square miles of patented claims and fee mineral properties cente red on the former Anaconda open pit copper mine con taining an historic resource estimate in excess of four billion pounds of copper, and 8,6 00 acre feet per year of water rights. This propert y, together with 9.3 and 13.2 square miles of unpatented claims at Yerington and nearby MacArt hur respectively, provides the Company with a signi ficant land position in the center of a copper camp. Quaterra has paid the remaining cash acquisition cost and has released 250,000 common s hares of the Company stock previously issued and under escrow.

On May 12, 2011, pursuant to its January 1, 2011 op tion, Quaterra announced its acquisition of the But te Valley porphyry copper prospect, located in White Pine County, Nevada. The property consists of approximately 45 square miles of minera l rights obtained by optioning and staking a total of 1,483 unpatented U.S. lode claim s.

On May 26, 2011, the Company entered into a mining lease with an option to purchase agreement with Maj uba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$1.61 million. The Company is requir ed to incur a total of US$300,000 exploration work on or before the third anniversary and any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so expend ed. The project is subject to 3% NSR upon commencin g commercial production of which 1% can be bought at US$1,500,000.

On June 15, 2011, the Company entered into an optio n agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Esmeralda County, Nevada for US$1 million over ten years. A 2% NSR is required upon c ommercial production.

On July 4, 2011, Quaterra announced that it has fin alized an option agreement with La Cuesta Internati onal, Inc. (LCI) to acquire a 100% interest in the Microondas prospect located in Zaca tecas State, Mexico, about 17 kilometers south-sout heast of Rio Grande. Quaterra has the right to earn a 100% interest in the property by ma king semi-annual lease/pre-production payments and paying a 1% Net Smelter Return royalty ("NSR") payment that is capped at US$5 mill ion. A portion of the property carries an uncapped 2% NSR royalty. Quaterra, at its option, may issue to LCI 20,000 common shares or it s cash equivalent on or before June 12, 2012.

On August 1, 2011, the Company entered into an opti on agreement with a private owner to acquire a 100% interest in certain mining claims situated in Lyon County, Nevada for US$500,000. The Company has an option at any time to purchase the property for the difference between US$500,000 and the sum of the amount previo usly paid.

On October 20, 2011, Quaterra added two properties to the Goldcorp IFA: El Calvo gold, located in the central Mexican state of San Luis Potosi, and Microondas gold-silver, located in Zacatecas State, Mexico.

On October 26, 2011, as contemplated by their June 17, 2010 agreement, Quaterra entered into a joint v enture agreement with Grande Portage Resources Ltd. for the Herbert Glacier gold project located near Juneau, Alaska. Grande Portage has ac quired a 65% interest and the Company retains a 35% interest in this project. Eac h party has agreed to bear its proportionate share of costs for the further exploration and development of the project.

On March 21, 2012, Quaterra entered into an Amended and Restated Investment Framework Agreement ("ARIF A") with Goldcorp Inc. ("Goldcorp") of Vancouver, B.C. This agreement exte nds the IFA entered into with Goldcorp on January 2 9, 2010 through the first quarter of 2013.

On April 12, 2012 received $2.48 million from Goldc orp to fund additional exploration on certain prope rties in Mexico by issuing 4 million shares at the price of $0.62 per share.

On October 2, 2012, the Company sold its Butte Vall ey copper project to Freeport-McMoRan Exploration C orporation of Phoenix, Arizona for gross proceeds of US$2 million.

On December 28, 2012, Quaterra completed a private placement of 6,541,571 units at the price of US$0.3 5 per unit for gross proceeds of US$2,289,550. Each unit consisted of one common sha re and one share purchase warrant with an exercise price of US$0.53 per warrant expiring December 28, 2014.

On March 20, 2013, the Company entered into an excl usive exploration agreement with Desert Pearl Farms , LLC for an option to purchase the surface rights, mineral rights and surface wate r rights to the Hunewill Ranch property in Lyon Cou nty, Nevada. To earn the exclusive right to conduct mineral exploration on the property, the Company is required to make annual payment of US$1 ,480,000 over a period of 8 years. The Company has the option to purchase the property at any time during the 8-yr period (Option Period).

On March 28, June 5 and July 4, 2013, the Company b orrowed a total of US$800,000 unsecured loans at an interest rate of 10% per annum from its Chairman of the board, Mr. Thomas Patton. As of December 31, 2013, US$200,000 was repaid and the balance of US$600,000 was amended on March 18, 2014 to a demand basis with a 40-day notice period.

On June 10, 2013, Quaterra and Goldcorp entered int o an amendment agreement with respect to the Invest ment Framework Agreement (IFA) dated January 29, 2010. This amendment agreement ex tended the expiration for designation of Advanced P roperties to January 2016 from January 2014 and also modified certain earn-in requ irements after a property has been selected as an A dvanced Property: 1) Lowered spending requirement to earn a 2% NSR royalty to $1 million over first three years (from $2 million ov er two years); 2) Lowered the minimum annual expenditure requirement after three years to $250,000 thousand from $1 million; 3) allo wed Goldcorp to pool expenditures from other projects to one project to meet the earn-in requirement described above.

On July 29, 2013, the Company received an acquisiti on bonus of US$1,000,000 ($1,038,000) from Freeport -McMoRan related to the sale of the Butte Valley property in October 2012.

Effective July 31, 2013, the Company implemented ch anges to management and composition of the Board of Directors

On September 13, 2013, Quaterra completed a private placement of 29,810,000 units at the price of US$0 .10 per unit for gross proceeds of US$2,981,000. Each unit consisted of one common sha re and one share purchase warrant with an exercise price of US$0.15 per warrant expiring September 13, 2016.

On September 19, 2013, Quaterra sold three properti es (Sabino, Marijo, and El Calvo) in central Mexico to Goldcorp. for a total cash consideration of US$375,000. Quaterra retained a 2% net smelter returns royalty ("NSR") on each of the three properties capped at USD$2,000,000 per property.

On November 12, 2013, the Company entered into an e xclusive exploration and option agreement with Yeri ngton Mining LLC for a property known as Yerington Mining property located in Lyon County, Nevada. To earn the rights to conduct miner al exploration on the property, the Company is required to make an annual payment of US $200,000 (2013 payment made) in the first two years and then US$100,000 on each anniversary date until November 12, 2021. These pay ments also provide the Company the exclusive right to purchase the property during this 8 year period (the option period).

On November 19, 2013, the Company entered into an a mendment agreement with La Cuesta International, In c. with respect to the Santo Domingo property, pursuant to which the Company issued 347,150 common shares in satisfaction of two pr operty payments.

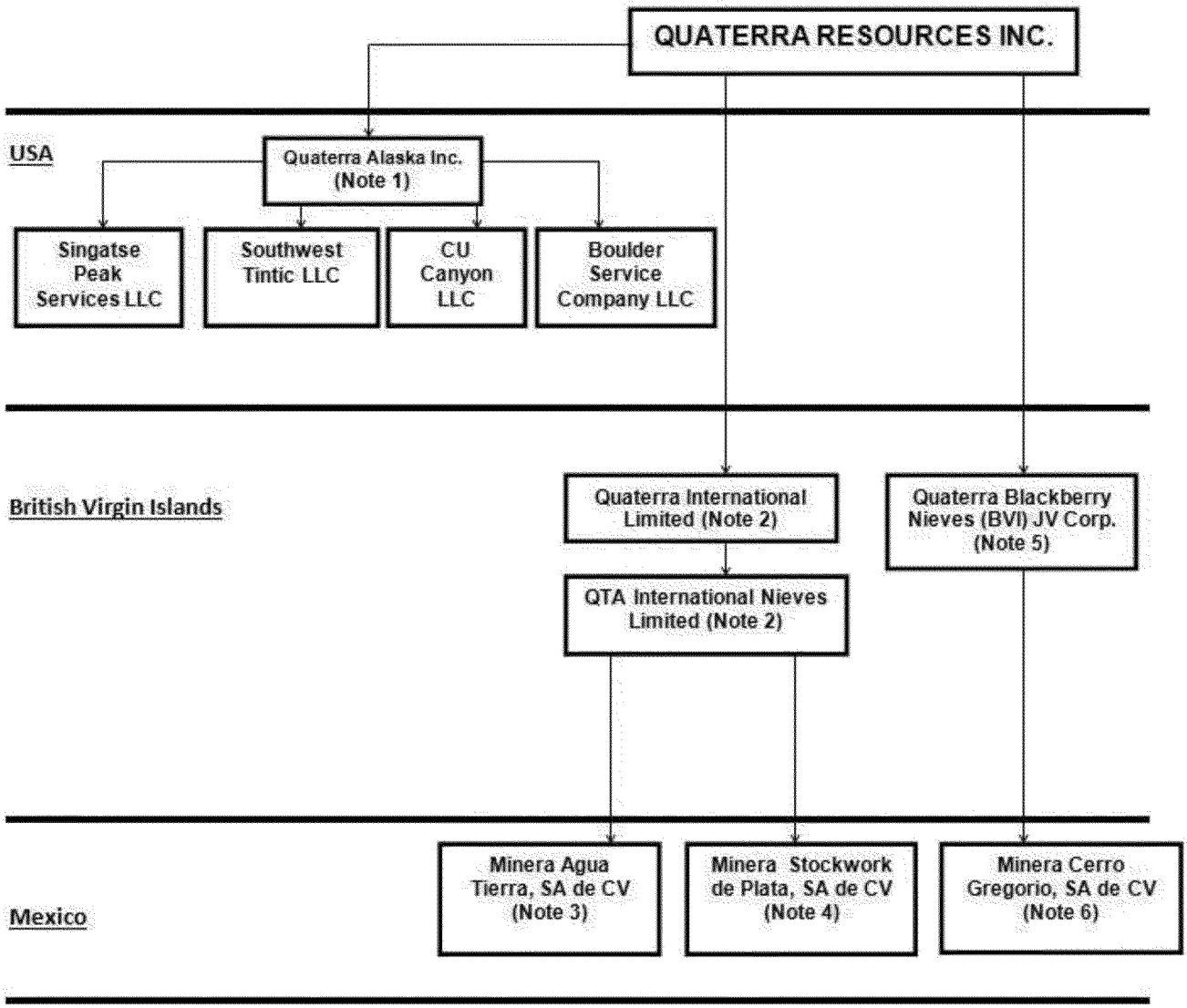
On November 19, 2013, the Company entered into an a mendment agreement with La Cuesta International, In c. with respect to the Microondas property, pursuant to which the Company issued 321,430 common shares in satisfaction of two property payments.

For more information about our business, please refer to Item 4.D "Property, Plants and Equipment" bel ow.

## C. Organizational Structure

**Inter-corporate Relationships**

The flow chart below presents the Company's legal corporate structure and the jurisdictions of the incorporation.




Note 1: Quaterra Alaska, Inc. is 100% owned by Quaterra Resources Inc. and holds MacArthur, Bear deposit, Arizona, Wyoming and Utah Uranium properties, SW Tintic, Herbert Gold, Reveille, Goldfield, Porker Brown, Cave Peak, and Wassuk Copper. Singatse Peak Services LLC holds Yerington property.

Note 2: Quaterra International Limited is 100% owned by Quaterra Resources Inc. and QTA International Nieves Limited is 100% owned by Quaterra International Limited.

Note 3: Minera Agua Tierra S.A. de C.V. is 100% owned by QTA International Nieves Limited and holds the following claims: Tecolote, Santo Domingo and Microondas.

Note 4: Minera Stockwork de Plata, S.A. de C.V. is 100% owned by QTA International Nieves Limited and holds the following claims: Reduccion Crestones, Las Americas, Americas, Miraso l, Cerro Blanco, Jaboncillo, Carolina, Falcon, Los Azafranes, Sara, Onix, Marijo, Coyote 4, Tajo, Crestones and Inde.

Note 5: Quaterra Blackberry Nieves (BVI) JV Corp. is 100% owned by Quaterra Resources Inc. with 50% held for the benefit of Blackberry Ventures I, LLC.

Note 6: Minera Cerro Gregorio, SA de CV is 100% owne d by Quaterra Blackberry Nieves (BVI) JV Corp. and holds 100% of the Nieves property.

D. Property, Plants and Equipment

**GENERAL DEVELOPMENT OF THE BUSINESS**

**MacArthur, Nevada, USA**

Acquisition and Staking of Mineral Claims

The MacArthur property consists of 897 unpatented l ode claims totaling approximately 18,533 acres on l ands administered by the US Bureau of Land Management ("BLM"). The total reflects the addition of 345 claims transferred from Quaterra's wholly owned subsidiary, Singatse Peak Services LLC (SPS) to Quaterra's MacArthur pro ject in July 2012. A significant number of the clai ms are held by means of a mineral lease with option to purchase, executed on August 2 7, 2005 and subsequently amended. The agreement giv es Quaterra the right to purchase the claims from North Exploration LLC ("North") by making 3 annual payments of $524,000 (option balanc e) plus interest at the rate of 6% per annum by January 15, 2013. The second of these three annual payments was paid January 11, 2012. Th e third payment was renegotiated on December 14, 2012 to defray the final option bal ance by making a $100,000 payment plus $31,440 in i nterest prior to January 15, 2013 to extend the lease and option to January 15, 2014. Th e final payment was subsequently spilt and delayed to July 1, 2014 for US$212,000 with the payment of $36,940 interest to be paid on March 31, 2014 and the reaming US$212,000 plus interest by January 15, 2015. Quaterra's purchase is subject to a two percent Net Smelter Re turn (NSR) royalty with a royalty buy down option o f $1,000,000 to purchase one percent of the NSR, leaving a perpetual one percent NSR. Th e agreement with North is in good standing.

Expenditures to Date

Acquisition costs incurred by the Company to Decemb er 31, 2013 were $3,363,308 (2012 - $3,077,838) and exploration expenditures were $19,501,476 (2012 - $18,783,675) for a total of $22 ,864,784 (2012 - $21,861,513).

Location, Access and Infrastructure

The MacArthur Copper Project is located near the ge ographic center of Lyon County, Nevada, USA along t he northeastern flank of the Singatse Range approximately seven miles northwest of the town of Yerington, Nevada. The project is ac cessible from Yerington by approximately five miles of paved roads and two mil es of maintained gravel road. A 100-foot wide grave l haul road that accessed the MacArthur open pit copper mine during the 1990s lea ds 5 miles south to the Yerington Mine. Beyond the MacArthur pit area are several existing historic two-track dirt roads that provide access throughout the property. Topographic covera ge is on US Geological Survey "Mason Butte" and "Lincoln Flat" 7.5' topographic quadrang les. The nearest major city is Reno, Nevada approxi mately 75 miles to the northwest.

History

The MacArthur project has been the subject of explo ration and drilling by several operators who have c ontributed to the current database of more than 740 holes totaling approximately 282,000 feet. During the late 1940s, Consolidated Copper Mi nes attracted the interest of the US Bureau of Mines to conduct 7,680 feet of trenching in 1948 and followed up with the completion eight c ore holes for 3,414 feet in 1950. The Anaconda Company ("Anaconda") began investigations at MacArthur including 33 shallow drill holes durin g 1955, 1956, and 1957. In 1963, Bear Creek Mining Company ("Bear Creek") optioned c laims and drilled at least fourteen air rotary hole s, the deepest to 663 feet. At least four holes for 1,237 feet were drilled to satisfy c laim staking location work. During 1967 to 1968, Th e Superior Oil Company optioned the claims formerly held by Bear Creek and drilled elev en holes as rotary pre-collar, core finish, for 13, 116 feet testing the concept that a deep primary sulfide-bearing porphyry copper ore shell m ight underlie the MacArthur oxide mineralization he retofore tested no deeper than 663 feet. During the early 1970s, Anaconda conducted an extensive trenching and rotary drilling program co nsisting of more than 280 rotary holes totaling approximately 56,000 feet over and adjacent to the present day MacArthur pit.

Metech Pty. Ltd., of Perth, Australia was commissio ned to prepare an ore reserve and mining planning s tudy of the MacArthur deposit in 1989 The Metech study initiated the purchase of the Anaconda Yerington district properties by Arimetco International ("Arimetco"). Arimetco mined a total of six million tons at an es timated grade of 0.36 % total copper using open pit methods from the MacArthur deposit in the period of 1995 to 1998. Due to financial difficulties resulting

primarily from the low price of copper, Arimetco sought protection under Chapter 11 of the U. S. bankruptcy Code in January 1997 and suspended all operations in 2000. After Arimetco's departure, the mining claims over the deposit were allowed to expire. No consistent, large-scale mining has occurred on the site.

Quaterra acquired the MacArthur property in August, 2005. The acquisition was motivated by Quaterra's belief in the potential of the property to host a copper deposit capable of sustaining a large run-of-mine heap leach operation using a solution extraction/electrowinning (SXEW) process for low cost production. The Company initiated exploration drilling in April 2007 and by November 2011, completed a total of 203,775 feet of drilling in 402 holes on the property. The drilling program has defined a widespread blanket of acid soluble copper oxide and chalcocite mineralization above primary copper mineralization that is believed to be the fringes of a major copper porphyry system.

Geology

The MacArthur copper deposit forms part of the Yerington mining district which includes at least three, large, porphyry copper deposits (Yerington, Ann Mason, Bear), as well as two large IOCG deposits (Pumpkin Hollow, and Minnesota). Mineralization ranges from disseminated porphyry copper occurrences to skarn, limestone replacement, and vein type deposits.

The Yerington area is underlain by early Mesozoic volcanic and sedimentary rocks now exposed along uplands in the Singatse Range in the west and the Wassuk Range to the east. These Mesozoic rocks were intruded by two Middle Jurassic batholiths, an older granodiorite (Yerington Batholith) and younger quartz monzonite (Bear Quartz Monzonite) that comprise the majority of outcropping rocks in the district. The batholiths were themselves intruded by another Middle Jurassic quartz monzonite event moderately to steeply north dipping quartz-biotite-hornblende porphyry dike swarms, associated with copper mineralization, striking north-northwesterly across the entire mining district. The Mesozoic section is overlain by Early to Middle Tertiary volcanics deposited ash flow tuffs prior to the advent of normal, faulting associated with Late Tertiary basin-and-range extension that displaced and tilted all of the above-mentioned rocks. These faults dip east and are curved, concave upward, so that the dip of the fault flattens eastward. Net displacements are in an east-west direction. The geologic section is completed by post-faulting conglomerates and alluvium.

At MacArthur, the older granodiorite underlies most of the northern and western parts of the Company's claim block. Along the east part of the claim block quartz monzonite is dominant and underlies the MacArthur pit. In bench walls at the MacArthur Pit, the quartz monzonite hosts conspicuous light brown limonite alteration banding (averaging 4 to 6 per foot) sub-parallel to the steeply north dipping, west-northwest trending quartz porphyry dikes. Along the eastern portions of the property, including the eastern third of the MacArthur pit, quartz monzonite assumes a light gray color due to widespread sodic-calcic alteration. A "border-phase quartz monzonite" commonly lies at the contact between the granodiorite and the quartz monzonite. The border-phase quartz monzonite is finer-grained than the quartz monzonite and has more abundant potassium feldspar.

Quartz porphyry dikes that host a large portion of the primary copper mineralization at Anaconda's Yerington mine are associated with all copper occurrences in the district. The porphyry dikes at MacArthur are classified by dominate mafic minerals into quartz biotite porphyry and quartz hornblende porphyry, each subdivided further based on composition and alteration. Dikes contain feldspar crystals and either hornblende or biotite crystals set in an aphanitic matrix. The structures are typically ridge-formers with widths to 50 feet, dip steeply to the north, and follow a penetrative north-northwest (S60°E to S80°E) structural fabric. Narrow (<10 feet) fine grained, post porphyry andesite dikes follow the same NNW structural fabric.

Both Jurassic and Tertiary age andesite dikes in the walls of the MacArthur Pit can be traced from bench to bench and projected across the pit floors. The Jurassic dikes are commonly very fine grained, dactylitic plagioclase-bearing porphyries that pinch and swell as they fill fractures and intrude the hornblende and biotite quartz porphyry dikes. Tertiary hornblende andesite dikes are similar, but coarser grained than the Jurassic andesite dikes, containing abundant, acicular, black hornblende phenocrysts and occasionally plagioclase phenocrysts. Mid-Tertiary ash flow tuff units unconformably overlay the Mesozoic intrusive rocks in the southeast and western margins of the property.

Mineralization

The MacArthur deposit is part of a large, partially defined porphyry copper system that has been complicated by complex faulting and possible post-mineral tilting. Events leading to the current geometry and distribution of known mineralization include 1) emplacement of primary porphyry copper mineralization; 2) supergene enrichment resulting in the formation of a widespread, tabular zone of secondary chalcocite mineralization below outcrops of totally oxidized rocks called a leached

cap; 3) oxidation of outcropping and near-surface p arts of this chalcocite blanket, as well as oxidati on of the primary porphyry sulfide system coupled with partial remobilization of copper to fo rm the upper zone of oxide copper now exposed in th e MacArthur pit and throughout the MacArthur property. Oxide, chalcocite, and primary copper mineralization on the MacArthur property is hosted in both granodiorite and quartz monzonite, and in lesser amounts within quar tz biotite-hornblende (monzonite) porphyry dikes, a ll of middle Jurassic age. Oxide copper is also hosted in northwest striking andesit e dikes less than one to ten feet wide with contact s forming favorable loci for mineralization. Andesite dikes make up less than ap proximately one to two percent of the host rocks on the property. Fracturing and ground preparation supplied the passage ways for the copper to migrate.

Copper oxide minerals are exposed throughout Quater ra's MacArthur property, particularly in MacArthur pit walls as primarily green and greenish-blue chrysocolla CuSiO3.2H20 along with bl ack neotocite, aka copper wad (Cu, Fe, Mn) SiO2, az urite Cu3(OH2)(CO3) and malachite Cu2(OH2)CO3, while tenorite (CuO) was ide ntified with the electron microprobe (Schmidt, 1996 ). Copper-enriched limonite was identified by Anaconda as the mineral delafossite ( CuFeO2). Chalcocite has been identified in drill ho les below the MacArthur pit and in drilling throughout the property. The sulfides digenite (Cu9S5) and covellite (CuS) have been identifi ed petrographically in drill cuttings from the western part of the property. The oxide copper mineralization is strongly fracture controlled, coating joint and fracture surfaces and within shears and faults. Both green and black copper oxid es are frequently found on 1-5 millimeter fractures , as coatings and selvages and may be mixed with limonite. The fractures trend overall N6 0°W to N80°W (bearing 300° to 280° azimuth) and gen erally dip to the north. Limited turquoise is found on the property, mainly in one- to five-millimeter veinlets. On a minor scale, oxid e copper mineralization replaces feldspar phenocrysts in the igneous host units, favoring andesite.

A significant amount of chalcocite has been interse cted in drillholes. Chalcocite is seen on drill chi ps or drill core coating pyrite and chalcopyrite as weak to strong coatings and is strongest when occurring around the MacArthur fault. Ch alcopyrite is present as disseminations and veinlets, with or without chalcocite. As much o f the historic drilling was stopped at shallow (<40 0 foot) depths, the scope and extent of chalcopyrite mineralization have not been fully defined.

Both copper oxide and chalcocite mineralization occ ur over approximately 9,000 feet east-west by 4,500 feet north-south. Copper oxides are structurally controlled coating fractures, joint su rfaces, and developed as green or black "streaks" w ithin shears and faults over several feet. Chalcocite may similarly be seen as grayish "streak s" within shears. Oxide mineralization exhibits a g enerally flat-lying geometry extending with good continuity 150 feet below surface and les s continuously up to 600 feet below surface. Chalco cite mineralization generally occurs as flat-lying zones 50 feet or more in thickness, mixed with or below oxide mineralization.

Primary chalcopyrite mineralization occurs irregularly with chalcocite and as porphyry style dissemina tions or as veinlets in quartz monzonite associated with potassic alteration below both the oxide and chalcocite mineralization. Quaterra's dri lling program in the Gallagher area has delineated a zone of chalcopyrite mineralization th at extends over a north-south distance of 2,500 fee t. The primary sulfide zone has a defined width of 500 feet and extends to a depth of approxi mately 650 feet.

Porphyry copper style sulfide mineralization below the low-angle MacArthur fault zone at the North Por phyry Target has been defined over a distance of 2,500 feet between holes QM-68 and QM-1 64. Veinlet and disseminated primary chalcopyrite m ineralization intercepted at a depth of 485 feet in QM-68 assayed 1.19% copper ove r a thickness of 110 feet. The same zone in QM-70 a veraged 0.82% copper over a thickness of 60 feet at a depth of 420 feet and cor relates to a thickness of 15 feet averaging 1.20% a t a depth of 770 feet in hole QM-72. QM-100 intersected the sulfide mineralization with 0.58% copper over 65 feet. Approximately 1,000 feet to the north, hole QM-164 intercepted 64 feet of disseminated chalcopyrite mi neralization in sodic altered granodiorite averagin g 1.31% copper at a depth of 1,673 feet. The intercept includes a high grade zone of 29 feet averaging 2.21% . Mineralized zones within potassi c halos in holes QM-165 to the west and in QM-163 to the east are consistent with those that could fringe a porphyry copper center.

Exploration and Drilling Results

Quaterra acquired the digitized Anaconda exploratio n and drilling data package in August 2006 and comm enced a review of the deposit geology and mineralization model using Datamine sof tware. The data was used to assess the required dri lling and sampling to complete a technical report on the MacArthur Project with the objective of preparing a NI 43-101 compliant resource estimate.

The lateral zonation of supergene copper minerals v isible at the surface, a possible chalcocite blanke t to the north of the pit, and a large, pervasive phyllic alteration zone to the north and west of the mine workings, all suggested to Quaterr a that the MacArthur deposit could have a potential for growth; both in the form of copper oxides and as primary sulfides in a related porphyry system.

In April 2007, the Company commenced a drilling pro gram to twin approximately 10% of the shallow holes that defined the previously explored copper oxide mineralization at MacArthur a nd to identify extensions of copper oxide and chalc ocite mineralization in the vicinity of the open pit. The 20-month drilling program totaled 80,100 feet in 173 holes including 23,900 feet of core in 49 holes and 56,200 feet of reverse circulation drilling in 124 holes. The dril ling successfully targeted a deeper chalcocite zone in step-out holes from the pit, expanded the known oxide mineralization, and encountered a l arge, underlying tabular blanket of mixed oxide-cha lcocite mineralization that overlies primary chalcopyrite mineralization verified by deeper drillholes in the western and northern margins of the drilled area.

Drilling on the MacArthur project was suspended thr ough most of 2009 pending receipt of a Plan of Oper ations (POO) drilling permit. On October 28th the Company received the approval of t he MacArthur POO and the BLM Record of Decision wit h a Finding of No Significant Impact (FONSI). The POO environmental assessment an ticipates a total surface disturbance of 200 acres as a result of drilling activities throughout much of the project area.

Quaterra initiated a second phase of reverse circul ation and deep core drilling in early December 2009 . Completed in August 2010, the program tested the northern extension to higher gra de acid soluble copper mineralization on 500 foot c enters northwest of the pit in-filled on 500 ft centers an undrilled area west of the pit. I n the southern Gallagher area, the program confirme d a band of continuous near surface oxide mineralization ranging in thickness from 15 to 60 feet over a distance of 1,900 feet between holes QM-155 and 156.

Three deep holes tested IPR anomalies to the north and northwest of the MacArthur pit where earlier dr ill holes intersected ore grade porphyry copper style sulfide mineralization below the low-angle MacArthur fault zone over a strike le ngth of 1,000 feet. Hole QM-100, located 1,400 feet north of QM-68, intercepted porp hyry-style chalcopyrite/biotite-chlorite veining at a depth 1,203 feet that assayed 0.58% copper over a thickness of 65 feet below the shallo w-dipping MacArthur fault zone. QM-109, spotted on an IPR anomaly, failed to reach projected depth due to fractured, caving ground whi le QM-99 intersected massive pyrite impregnated bre ccia and scattered zones of secondary biotite and chlorite alteration; common elements of a porphyry system.

A total of 81,560 feet were drilled in 153 holes in cluding 69,890 feet in 147 RC holes and 11,760 feet in 6 core holes during the 2011 drilling program. The program had the twin goals of enlargin g and upgrading the status of the inferred resource s through step-out and infill drilling and exploring for primary sulfide mineralization related to a copper porphyry system at depth.

The infill program encountered high grades of conti nuous chalcocite and copper oxide mineralization in zones averaging 40 feet or more in thickness along the western and northern margins of the deposit in the area referred to as the "Ridge Zone". To test the high-angle mineralized structures that form an important component of the acid-soluble copper deposit, the program was comple ted on 250-foot centers in areas with higher grade potential and encountered some of the highest grades and best intercepts of acid soluble copper mineralization ever drilled on the property. Hole QM-187, drilled 2,000 feet north of the MacArthur pit, intersected 90 feet of predomina ntly chalcocite mineralization averaging 1.66% total copper (TCu) starting at a de pth of 310 feet. This intercept includes 40 feet as saying 3.49% TCu. Hole QM-180 along the northwestern margin of the zone intercepted 40 feet averaging 1.37% TCu at a depth of 360 feet.

Exploration for a deep porphyry system at MacArthur intercepted one of the best primary copper interce pts yet identified on the project with 64 feet of disseminated chalcopyrite mineralization in sodic altered granodiorite averaging 1.31% TCu at a depth of 1,673 feet. The intercept includes a high grade zone of 29 feet averaging 2.2 1% TCu. QM-164 also intercepted a shallower zone of both vein and disseminated chalcopyrite at a depth of 685 feet that averages 0 .34% TCu over a thickness of 96.5 feet. QM-164 exte nded the mineralized zone identified in QM-100 a distance of 1,000 feet to the north whe re it remains open for extension.

Geophysics

Quaterra Resources contracted three surveys at the MacArthur project in 2011 and 2012. A borehole geop hysical survey and a surface IP/resistivity (IPR) survey were carried out by Zon ge International in 2011. A detailed helicopter mag netic survey was flown by Geosolutions Pty. Ltd. in 2012. These surveys supplement previou s geophysical work on the property that includes: a 2009 IPR survey carried out by Zonge; a 2007 helicopter magnetic survey carried ou t by EDCON-PRJ; a series of historic aeromagnetic s urveys (1966 to 1975) available in analog form from the Anaconda Archives; and a serie s of historic IPR surveys (1963 – 1964) carried out by Kennecott Exploration Services/Bear Creek Mining Company and Superior Oil .

The mineralized system at MacArthur has an anomalou s IP and resistivity response first detected in the Kennecott and Superior Oil IPR surveys in the 1960's. The Quaterra 2009 and 2011 I PR surveys confirmed the reliability of the earlier surveys and further defined the depth extent of the IP anomalies. The 2009 and 2011 Quate rra surveys confirmed that the 1963-64 Kennecott da ta is of good quality and is useful for mapping anomalous IP zones within the upper 1,0 00-1,200 feet from the surface. Below this depth, t he older data cannot effectively resolve the bottom of the IP anomalies nor determine if any of the anomalies extend to great depths.

The 2009 and 2011 data sets show this increased dep th of exploration is important. Portions of the IP response are flat lying with limited depth extent. However both the 2009 and 2011 survey s have identified anomalous IP responses with depth extent in excess of 2000 feet and possibly feeder zones of the near surface zones. In 2011 two borehole IP surveys were run that demonst rate Quaterra's ability to explore for deep sulfide responses below the depth of explorati on of surface techniques. The modern data maps subt le low resistivity features which are interpreted to be porphyry alteration systems and h ave identified anomalous IP responses that extend u nder post-mineral volcanic cover to the north and west of the main MacArthur system. These buried anomalies are high priority drill targets.

Two high resolution helicopter magnetic surveys wer e flown over the MacArthur project in 2007 (EDCON-P RJ) and 2012 (Geosolutions). The modern, high resolution data has a broad freque ncy bandwidth and will be used for 3D modeling and exploring beneath the magnetic volcanic cover.

Sampling, Analysis and Security of Samples

Quaterra has explored the MacArthur property with b oth reverse circulation (RC) and diamond core drill ing methods. Reverse circulation holes were drilled by Diversified Drilling LLC, Mis soula, Montana, USA, DeLong Construction Inc., Winn emucca, Nevada, USA and by Leach Drilling Inc., Silver Springs, Nevada, USA. D uring 2007-2008 the core drilling was contracted to Kirkness Diamond Drilling of Dayton, Nevada, USA and Kirkness Brothers Diamond D rilling (aka KB Drilling Co, Inc) of Carson City, N evada, USA. Major Drilling America, Inc., Salt Lake City, Utah, conducted core drilling during 2009-2010. Core drilling during 20 11 was contracted to Ruen Drilling Inc, Clark Fork, Idaho, USA. The RC crews ran one 10-12 hour shift per day; the core drill crews operated 2 4 hours per day.

The MacArthur drilling program is supervised in the field by the project geologist for monitoring reco very, proper sample handling and accuracy in labeling. Drill core (HQ diameter) and reverse circulation samples are delivered from the drilling rigs to the core and sample storage facility in Yerington by the drillers at the end of each 12 hour shift for logging and samplin g by the project geologists.

At the core storage/logging facility, core is photo graphed, measured, core recovery calculated, and th e rock types, alteration minerals, textural features, structures, veining, and mineralized zone s documented. Sample intervals on the first three h oles were fixed at 5 feet. In subsequent drill holes the sample intervals are taken at each of the core runs marked by the driller's blocks. Ex ceptions are where full recovery occurs in numerous, short core runs in intervals less than ab out 6 feet, or where the geologists visually select ed sample intervals based on rock type or structure. Sample intervals are measured and marked with permanent marker, orange ribbon and aluminum tag that is stapled to the core tray showing the sample number. Where the core sample is coherent a line is drawn with permanent marker alo ng the stick so that it is sawn in half perpendicular to the "grain" in order to get a representative split. The core is stored on pallets to be picked up by the analytical laboratory.

When core from the project arrives at the laborator y, it is split, using a core saw, into halves and o ne half of each interval is placed into a sample bag that is marked with the sample number. T he sample is then dried, crushed to –10 mesh, rotar y split to 1,000 grams, pulverized to –150 mesh, and split to 350 gram pulps. The pulps a re assayed for total copper using a 2 gram-3 acid v olumetric ore grade atomic-absorption (AA) spectroscopy analysis. The solution from the t otal Cu analysis is assayed by inductively coupled plasma (ICP) spectrometry for 34 elements. The acid soluble copper oxide (asCu) cont ent of the sample is then analyzed by using a weak, sulfuric acid solution leach of a 1 gram pulp. The acid leachable copper sulfide conten t is analyzed by using ambient temperature concentr ated sulfuric acid and hydrated ferric sulphate to determine Ferric Sulfate Soluble Copper (FSCu) content. Internal quality assurance and qua lity control procedures include the insertion of standards and duplicates into the samp le sequences. Rejects from the previously analyzed samples are also sent to another accredited laboratory for check analyses. The remai ning half core is placed back into the core box in its original position and the core boxes are returned to the Yerington core storage/logging facility by the laboratory truck, where it is then stacked and stored in order and by hole number. Reject and pulps are also returned with the core to the Yerington facility for archiving.

American Assay Laboratories (AAL) located in Sparks , Nevada prepared and assayed samples from the MacA rthur drilling program in 2007. AAL is ISO/IEC 17025 certified and participates in CANMET, PTP MAL certification analyses twice a year and in GEOSTATS, SMA, and IOAG testing twice a year. Core samples from subsequent programs have been prepared

and analyzed by ISO17025 compliant ALS Chemex Labor atories in Sparks, Nevada and Skyline Assayers and Laboratories (Skyline) in Tucson, Arizona.

The MacArthur reverse circulation drilling program is supervised in the field by the project geologist for sample accuracy, proper handling and accuracy in labeling. Methods and procedures fo r splitting and packaging of samples are conducted such that the quality of the sample splitting meets or exceeds standards required under NI 43-101 and a chain of custody starts with the d rillers collecting, splitting and bagging of RC drill cuttings.

For logging of drilled lithologies, a continuous ch ip sample is collected in a plastic chip tray over five foot intervals and stored for logging by the project geologists. A 5/16 continuous split of five foot sample intervals is collected for assaying from 5.2 inch diameter drill holes through a wet splitter mounted on the rig. The samples are placed in sample bags and transported from the dril ling rig to the Company's storage facility in Yerington at the end of each 12 hour sh ift. The samples are then inventoried by Company pe rsonnel, dried, placed on pallets, wrapped in plastic and shipped via United Parcel Se rvice to the Skyline laboratory in Tucson, Arizona for sample preparation and assaying. Rejects and pulps are returned to the Yerington facility for archiving.

Skyline Assayers & Laboratories is accredited by th e American Association for Laboratory Accreditation (A2LA - certificate no. 2953.01) in the Chemical field of Testing. Skyline is a recogni zed industry leader for all types of base metal, fe rrous and non-ferrous analysis including high quality ore-grade assays, sequential copper an alyses of ores, and umpire assays of metallurgical products. The Tucson laboratory has provided analytical service to the copper mining industry for over 70 years.

At Skyline, the RC samples are crushed to plus 75% passing a -10 mesh, split and pulverized at the Sky line laboratories for assay using analytical techniques as described for the core dri lling program. Internal quality assurance and quali ty control procedures include the insertion of standards into the sample sequences. Rejects fro m the previously analyzed samples are sent to ALS C hemex Laboratories in Sparks, Nevada for check assays.

Mineral Resources

Tetra Tech completed an updated National Instrument ("NI") 43-101 compliant independent resource estim ate for the MacArthur PEA. At a 0.12% cutoff, the tonnage of the measured oxide and chalcocite resource was 71,829 million tons at 0.2 18% copper containing 313 million lbs. of copper, the indicated oxide and chalcocite resource was 87,264 million tons at 0.208% copper c ontaining 362 million lbs. of copper, and the inferred oxide and chalcocite resource was 243.4 million tons at 0.201% copper containing 979.5 million lbs. of copper.

MacArthur's indicated sulfide resource at a 0.15% c utoff is 1.1 million tons averaging 0.292% copper c ontaining 6.4 million pounds of copper and the inferred sulfide resource was 134.9 million tons averaging 0.283% copper containing 764 million lbs. of copper.

**MACARTHUR COPPER PROJECT [1,2,3,4]**

| Oxide and Chalcocite Material | | | | Primary Material | | | |
|---|---|---|---|---|---|---|---|
| **Cutoff Grade (%TCu)** | **Tons (x1000)** | **Average Grade (%TCu)** | **Contained Copper (lbs x 1000)** | **Cutoff Grade (%TCu)** | **Tons (x1000)** | **Average Grade (%TCu)** | **Contained Copper (lbs x 1000)** |
| **Measured Copper Resources** | | | | **Measured Copper Resources** | | | |
| 0.25 | 15,929 | 0.350 | 111,599 | 0.25 | | | |
| 0.20 | 33,472 | 0.283 | 189,518 | 0.20 | | | |
| 0.15 | 58,388 | 0.237 | 276,993 | 0.18 | | | |
| **0.12** | **71,829** | **0.218** | **313,174** | **0.15** | **N/A** | **N/A** | **N/A** |
| **Indicated Copper Resources** | | | | **Indicated Copper Resources** | | | |
| 0.25 | 13,930 | 0.379 | 105,478 | 0.25 | 507 | 0.416 | 4,216 |
| 0.20 | 31,949 | 0.290 | 185,049 | 0.20 | 670 | 0.369 | 4,938 |
| 0.15 | 67,271 | 0.229 | 308,639 | 0.18 | 796 | 0.340 | 5,414 |
| **0.12** | **87,264** | **0.208** | **362,320** | **0.15** | **1,098** | **0.292** | **6,408** |

| | Inferred Copper Resources | | | | Inferred Copper Resources | | |
|---|---|---|---|---|---|---|---|
| 0.25 | 43,695 | 0.366 | 311,108 | 0.25 | 53,060 | 0.423 | 449,312 |
| 0.20 | 82,610 | 0.293 | 483,929 | 0.20 | 89,350 | 0.341 | 609,188 |
| 0.15 | 166,930 | 0.232 | 774,889 | 0.18 | 101,375 | 0.323 | 654,680 |
| **0.12** | **243,417** | **0.201** | **979,510** | **0.15** | **134,900** | **0.283** | **764,074** |

[1]Independent qualified person, Dr. Rex Bryan, prepared and supervised the preparation of these mineral resources.

[2]All estimated resources are shown using a 0.12% and 0.15% copper cutoff for oxide and sulfide respectively

[3]Minor rounding errors may occur

[4]Amended NI 43-101 Technical Report Preliminary Economic Assessment - Issue date: 17 January 2014 Effective Date: 23 May 2012

Tetra Tech used 0.12% Cu (or TCu) as the base case cutoff grade for the leachable resource while applying a base case a 0.15% Cu cutoff grade for the primary sulfide resources. Both of these values are believed representative of actual operating cutoff grades in use as of the date of this report. It is the conclusion of Tetra Tech that the MacArthur Mineral Resources meet current CIM definitions for classified resources.

The updated mineral resource estimate was generated using drill hole sample assays results and the interpretation of a geologic model which relates to the spatial distribution of copper in the MacArthur deposit. Interpolation characteristics have been defined based on geology, drill hole spacing and geostatistical analysis of the data. A block size of 25 feet by 25 feet by 20 feet and an assay composite length of 10 feet were defined to best reflect both the drill hole spacing and current geologic model.

The database provided by Quaterra contained the pertinent drill hole and assay information for the Mac Arthur Copper deposit. The database contained 737 drill holes of which 676 drill holes from Quaterra and Anaconda (sometimes referred to as the Metech holes) were used. The 61 holes removed included holes with limited or no information on the assays (Pangea Gold 1991, Superior, USBM 1952, Anaconda 1955-57), and six Quaterra holes outside the model limits. Of the 676 holes used, there are 280 Anaconda (Metech) RC holes and 396 Quaterra holes (58 core and 338 RC holes). These drill holes traversed 257,895 feet, producing 51,258 total copper sample assay values at a nominal five feet in length. The variables available in the database are for total copper from Quaterra and Anaconda intervals, and acid-soluble copper, a limited number of ferric sulfate soluble (QLT) copper assays and a very limited number of cyanide leach copper assays from Quaterra holes.

A total of twenty-two (21 directional and a omni-directional) variograms were calculated using MicroModel® for each MinZone within each area. The program searches along each direction for data pairs within a 12.5 -degree window angle and 5-feet tolerance band. All experimental variograms are inspected so that spatial continuity along a primary, secondary and tertiary direction can be modeled. Each variogram model was then validated using the "jackknifing" method. This method sequentially removes values and then uses the remaining composites to krige the missing value using the proposed variogram.

To classify the total copper resources Tetra Tech used an approach that takes into account the spatial distribution of the drilling, the distance to the nearest data points used to estimate a block, and finally the relative kriging error generated by the estimate. Tetra Tech has found this approach to be very robust and provide highly reproducible results.

The Qualified Person for the updated MacArthur resource estimate is Dr. Rex Clair Bryan with Tetra Tech.

Metallurgy

The MacArthur Project has a long history of metallurgical testing from 1976 through 2011 including bottle roll and column leach testing and full scale heap leach operations. Anaconda performed the first test work in 1976 and multiple subsequent owners continued test work through 2011. The most comprehensive test work was performed by Quaterra during 2010 and 2011. Quaterra contracted METCON Research of Tucson, Arizona to run a substantial number of bottle roll leach tests along with 32 column leach tests, on samples from 27 large diameter (PQ) size core drill holes. These drill holes provided reasonable representivity of the MacArthur Project mineral resources. The testwork, both historic and that most recently performed, shows the mineralized material is amenable to standard heap leaching with good copper extraction.

Considering both recent and historical test work, along with information from previous mining operations at the MacArthur site, the design basis for the M3 MacArthur Copper Project May 23, 2012 Preliminary Economic Assessment (PEA) considers a ROM heap leach operation with processing of the pregnant leach solution (PLS) through traditional solvent

extraction / electrowinning (SX/EW). Copper extract ion is predicted to range between 60 and 70 percent depending on material type. Acid consumption projections range between 30 and 35 pou nds of acid per ton of material. The historic MacAr thur Pit contains 133 million tons of oxide material which is predicted to yield 70% copp er extraction with acid consumption of 30 pounds of acid per ton of material leached. Material from the MacArthur pit is predominately mined and processed over the first 7 years of operati on.

The leach pad will be constructed using an HDPE lin er system meeting Nevada requirements (NR 455). Con ventional solvent extraction will be used. Electrowinning will include permanent moth er blank stainless steel technology and harvesting of Grade A copper cathode on a 7 day pull schedule. All process facilities will incorporate proven industry standard designs and equipment.

The Qualified Person for the metallurgical portion of the MacArthur Copper Project PEA is Dr. Richard Jolk of Tetra Tech.

Preliminary Economic Assessment

M3 Engineering & Technology Corp. ("M3") of Tucson, Arizona completed a preliminary economic assessmen t ("PEA") for the MacArthur project on May 23, 2012. The PEA was amended and re stated on January 27, 2014. The study concluded tha t the project has potential for development as a large-scale copper oxide heap leac h operation that would provide long-term cash flows for a relatively modest capital outlay. The PEA set out the following key project parameters:

- An open pit mine based on an acid soluble measured and indicated copper resource model of 159 million tons at 0.212% copper and an inferred resource of 243 million tons at 0.201% copper.
- Recovery of 747 million pounds of copper over the 1 8-year mine life at an average mining rate of 15 mi llion tons per year with a waste to ore stripping ratio averaging 0.90.
- Initial capital expenditure of US$232.7 million.
- Average life-of-mine operating costs of US$1.89 per pound.
- An after tax net present value ("NPV") of US$201.6 million at an 8% discount rate and a base case copp er price of US$3.48 per pound. (The project breaks even at a copper price o f $2.56 per pound until the capital is paid off in 3.1 years. Thereafter, the breakeven is US$2.23 per pound.)
- An after tax internal rate of return ("IRR") of 24. 2% with a 3.1-year pay back.

Mine operating costs were provided by Independent M ining Consultants Inc. ("IMC") of Tucson, Arizona, based on an average 41,000 ton per day mine plan.

The project financials were enhanced by including i n the above cash flows a sulfuric acid plant at the site compared to purchasing and transporting acid to the site. An on-site acid plant provides more long term certainty for the highest operating cost item (sulfuric acid), reduces the requirement for purchased electric power, and w ould leverage future consolidation and development of other oxide deposits in the District.

The SX/EW capital cost estimate was prepared based on recent M3 in-house information of similar SX/EW facilities. It includes the heap leach pads, SX/EW facility and tank farm based on a design flow rate of 10,400 gal/min. Additional upf ront capital costs were included for mining equipment and infrastructure improvements (p ower, water, roads) needed at the site. Capital cos ts are considered accurate to -20% to +25%.

The Qualified Person for the preliminary economic a ssessment is Mr. Rex Henderson with M3. The Qualifi ed Person for the mining portion of the report is Herb Welhener of IMC. The NI43-101 MacArthur Copper Project may 23, 2013 PEA is avail able at www.sedar.com.

Future Plans

The results of the PEA are being used to determine what additional drilling will be required to bring the project to a prefeasibility status and to evaluate the potential to integrate the MacArthu r resource into a larger operation that includes th e Yerington Copper resource. This stage of a project generally includes additional infill and condemnation drilling, metallurgical testing and ge otechnical work as well as environmental studies, permitting and engineering.

Some of the options being considered to add additio nal value to the project include:

- Processing the Yerington site oxide residuals as part of a District-wide oxide project.

- Additional drilling particularly at the north end o f the MacArthur site to investigate integrating bot h deeper acid- soluble and primary sulfide copper into an expanded MacArthur mine plan.
- Pit studies to raise grades, lower the strip ratio and optimize production rates.
- Inclusion of other smaller oxide deposits on the Co mpany's land position in the Yerington Copper District.

**Yerington Copper Project – Nevada, USA**

Acquisition and Staking of Claims

The Yerington Copper project property totals approx imately 11 square miles. The project mineral rights consist of 2,768 acres of fee mineral properties and patented mining claims as well as 20 1 unpatented lode and placer claims totaling 4,153 acres on lands administered by the US Department of Interior, Bureau of Land Management ( BLM). The total reflects the transfer of 345 claims from Quaterra's wholly owned subsidiary, Singatse Peak Services LLC (SPS) to Quaterra Alaska's MacArthur project in July 2012.

On May 1, 2007, SPS received the bankruptcy court a pproval for the acquisition of certain assets of Ar imetco, Inc. (Arimetco) in the Yerington Mining District, subject to completion of due diligence. The purchase price comprised US$500 ,000 cash, 250,000 of the Company's common shares and a 2% net smelter return royalty capped at US$7.5 million dollars on produc tion from any claims owned by the Company in the Yerington and MacArthur mine areas.

Private land, patented claims, and 23 unpatented mi ning claims related to the Yerington Copper project were acquired by SPS from the Arimetco bankruptcy court in April, 2011. The acqui sition followed three years of due-diligence studie s and negotiations with state and federal agencies and the receipt of Bona Fide Prosp ective Purchaser (BFPP) letters from the US Environ mental Agency (EPA), the Nevada Division of Environmental Protection (NDEP) and the BLM to protect SPS from liability emanating from a ctivities of the former mine owners and operations.

Singatse Peak Services (SPS) purchased the Anaconda Mine and MacArthur Mine properties along with the appurtenant ground water rights in 2011. SPS owns a total of 8,621 acre-feet/yr of primary ground water rights which have senior prior ity standing. The purchased water rights are primary ground water rights specifically permitted for mining and milling. These water rights have significant value. Recent sales of primary ground water in Mason Valley Nevada have sold for over $3,000 per ac-ft.

Private properties related to the Arimetco acquisit ion are located in Township 13 North, Range 25 East in Sections 4, 5, 8, 9, 16, 17, and 21, and patented claims are located within Township 13 North, Range 25 East in Sections 16, 17, 19, 21, 31 , and 32 and in Township 13 North, Range 24 East in Sections 22-25 and 36. An addition al 434 unpatented claims in Sections 1, 2, 11-13, 2 2- 27, 35, and 36 Township 13 North, Range 24 East and in Sections 4- 9, 16- 21, and 30- 32 Township 13 North, Range 25 East, Mount Diablo B ase & Meridian were staked prior to or subsequent to the acquisition by SPS.

Expenditures to Date

Acquisition costs incurred by the Company to Decemb er 31, 2013 were $3,368,518 (2012 - $3,193,862) and exploration expenditures were $7,047,920 (2012 - $6,521,961) for a total of $10,4 16,438 (2012 - $9,715,823).

Location, Access and Infrastructure

The Yerington Copper Property is located near the g eographic center of Lyon County, Nevada, US, along the eastern flank of the Singatse Range. The property centers on the historical Yerin gton open pit mine, flanked on the west by Weed Hei ghts, Nevada (a small private community; the original company town of The Anacond a Company) and on the east by the town of Yerington , Nevada. The property is easily accessed from Yerington by a network of paved roads that were used as principal transportation and acc ess routes during the former operating period of the Yerington Mine. SPS controls approxim ately 8,600 acre feet of groundwater rights and the Yerington pit contains an estimated 37,000 acre feet of water. Power is available on si te at the Yerington Mine area. Nevada Energy operat es a 30 million kW propane-fired, electrical generating power plant within ten miles of the site. The power infrastructure at the Yering ton Mine site is expected to be readily available for a future mining operation due to the historical mine operations at the site. Topographic coverage is on US Geological Survey "Yerington" and "Mason Butte" 7.5' topographic quad rangles. The nearest major city is Reno, Nevada, ap proximately 80 miles to the northwest.

History

Recorded production in the Yerington mining district dates back to 1883 (Moore, 1969) as prospectors were attracted to and investigated colorful oxidized copper staining throughout the Singatse Range. Knopf (1914) reported that oxidized copper cropped out at the historic Nevada-Empire mine located above the south center of the present-day Yerington open pit. Knopf does not show or reference other mines or prospects that are underlain by the Yerington open pit footprint, as gravel and alluvial cover obscure bedrock over an approximate 0.75 mile radius around the Nevada-Empire Mine.

Information is sparse for the period from Knopf's reporting in 1914 until World War II, although it is likely that lessees worked the Nevada-Empire during spikes in the copper price. Private reports (Hart, 1915 and Sales, 1915) describe ore shipments and planned underground exploration from a northwest striking, southwest dipping structure at the historic Montana-Yerington Mine area located approximately one mile west of the present-day Yerington pit.

During the 1940s, The Anaconda Company (Anaconda), at that time one of world's major copper producers, outlined a 60-million-ton resource over the Yerington pit. During the early 1950s, the US government, citing the need for domestic copper production, offered "start-up" subsidies to Anaconda to open a copper mine in the Yerington district. Anaconda sank two approximately 400-foot-deep shafts in the present-day open pit and drove cross cuts to obtain bulk samples of oxidized rock for metallurgical study. Anaconda began operating the Yerington Mine in 1952 and mined continuously through 1979, producing approximately 1.744 billion pounds of copper from an ore body that contained 162 million tons averaging 0.54% Cu. Approximately 104 million tons of this total were oxidized copper ore that was "vat-leached" with sulfuric acid in 13,000-ton cement vats on a seven day leach cycle. Sulfide ores were concentrated on site in a facility that was dismantled and sold following termination of mining in 1979.

In 1976, all assets of The Anaconda Company, including the Yerington Mine, were purchased by the Atlantic Richfield Company (ARCO) who in 1979 shut down dewatering pumps in the pit and closed the Yerington Mine due to low copper prices. In 1982, ARCO sold the entire Yerington Mine complex and Weed Heights town site to Mr. Don Tibbals of Yerington, Nevada, who scrapped the plant and equipment. At closure, before dewatering pumps were shut off, the Yerington mine plan hosted a pre-stripped, non NI 43-101 compliant historic "reserve" of 98 million tons averaging 0.36% Cu containing approximately 696 million pounds of copper (K. L. Howard, Jr., Anaconda Internal Memo, 1979) within the ultimate pit design. The (Howard, 1979) estimate was prepared from a geologic section calculation using a 0.2 %TCu cut-off grade. Although the 1979 estimate contained no classification for measured, indicated, or inferred resources as defined by NI 43-101, the total estimate compares favorably to Tetra Tech NI43-101 compliant independent resource estimate completed in February 2012. An additional 22.8 million tons of material containing 136.8 million pounds copper was identified adjacent to the pit in this historic estimate. The (Howard, 1975) memo addressing this material is considered reliable because it cites mine reconciliation calculations and geologic projections from drill holes using a 0.2% Cu grade cut-off in an internal Anaconda memo by T. Leigh to W.C. Norem (1979).

In 1989, Arimetco Inc. (Arimetco) purchased the mine property from Tibbals, commissioned a 50,000-pound-per-day solvent extraction/electrowinning plant, and began heap leaching "sub-grade" dump rock stripped from the Yerington pit by Anaconda. Arimetco also added an unknown tonnage of "vat leach tailings" (minus 3/8 inch oxidized tailings leached during Anaconda's operation) to some heap leach pads (HLP's) as well as trucking oxidized ore from the MacArthur property located approximately five miles north of the Yerington mine site. Arimetco produced some 95 million pounds of copper from 1989 to 1999 before declaring bankruptcy due to low copper prices and abandoning the property.

Soil and groundwater contamination, alleged to stem from the former mining operations at Yerington, have been identified on the property. As a result, a portion of the property acquired by SPS in 2011 is now under the jurisdiction of the EPA. Liability for the contamination on site is the responsibility of a third party which is actively engaged in remedial investigation and remediation activities under the supervision of the EPA.

In order to establish SPS's position and rights, the acquisition by SPS of the Arimetco properties required a series of rigorous environmental, legal, and technical due diligence studies. The Chambers Group Inc. and Golder Associates Inc. completed a Phase 1 Environmental Site Assessment Report to allow SPS to establish liability protection as a bona fide prospective purchaser (BFPP). Prior to closing on the property, SPS received letters from the Nevada Department of Environmental Protection (NDEP), US Bureau of Land Management (BLM) and the USEPA indicating the post-closing requirements then applicable to the Site for SPS to maintain its defense to liability as a BFPP regarding the activities of the former mine owners and operators.

In September 2012, SPS reached a voluntary agreement with the U.S. Environmental Protection Agency (EPA) to participate in upgrading the system which manages fluids from the historic mining operation at the Yerington mine site. In exchange for

SPS's participation in this work, the Company obtai ned a site-wide 'Covenant Not to Sue' for the conta mination left at the site by former owners and operators of the historic mine operations.

The agreement provides for immediate environmental improvements to the site and allows SPS to continue exploration at the site while working cooperatively with the EPA, Nevada Departme nt of Environmental Protection and the community. T he Agreement's 'Covenant Not to Sue' strengthens SPS's 'Bona Fide Prospective Pu rchaser Defense' against liability resulting from t he contamination at the site prior to SPS's purchase.

The first phase of the fluid management project was completed in Q4 of 2012. The Company co-funded the repairs to the on-site fluid management system (FMS) by the EPA as well as the r elining of one of the system ponds. During Phase 2 of the project, the Company completed a study of the FMS to determine what addi tional repairs or other modifications are necessary to ensure that the system is capable of handling the fluids from the former mine operations for a period of five years. The Study was complete d by the Company's contractor in June 2013. EPA decided not to implement the 5-year capac ity alternative recommended in the Study. Rather, E PA decided to build now ponds to address the FMS capacity issues. The Company decide d not to fund construction of the additional ponds. Rather, the Company agreed to provide property at the site to construct the new p onds.

During 2014, SPS will prepare a Final Report and an ticipates that EPA will issue a Notice of Completio n for the work performed under the Agreement. Following the Notice of Completion, SPS believes it does not have further obligations under the Agreement, except for those as a landowner and as a BFPP. The cost to be incurred during 2014 to complete SPS's obligations under the Agreement is estimated at US$50,000.

Geology and Mineralization

The Yerington property includes both the Yerington Deposit (Yerington Mine) and a portion of the Bear Deposit which represent two of three known porphyry copper deposits in the Yerington cop per district. The porphyry systems are hosted in mi ddle Jurassic intrusive rocks of the Yerington Batholith. Unless noted otherwise, the following discussions refer to the Yerington Deposit

Mineralized porphyry dikes associated with three ph ases of intrusive activity related to the Yerington Batholith form an elongate body of mineralization that extends 6,600 feet along a stri ke of N118°E. The mineralization has an average wid th of 2,000 feet and has been defined by drilling to an average depth of 250 feet below t he Yerington Mine pit bottom at the 3,800-ft elevation. Because of the economic constraints of low copper prices at the time, many of the 558 h istoric Anaconda drill holes used in the SPS study were stopped in mineralization and very few were drilled below the 3,400-ft level where the porphyry system remains nearly unexplored.

Only four historic holes have actually explored the deep vertical projection of copper mineralization in the pit. Three of the holes were drilled along a single N-S oriented section through the cen ter of the pit. According to M. T. Einaudi in an in ternal 1970 Anaconda report. the deep drilling program defined a series of nested, concav e upward, grade shells that are elongated down the N 70° dip of the dikes with the 0.2% Cu zone extending to approximately the 2,600-ft level; an overall dip distance of 2,200 feet. Although th e program encountered an increasing ratio of pyrite to chalcopyrite, there was no indic ation of a "barren core", the porphyry dikes showed a "remarkable continuity" down dip and molybdenum mineralization became more abundant with increasing depth.

The orientation of the Yerington Deposit is due to mid-Tertiary extensional faulting that rotated the near vertically-emplaced batholith 60° to 90° westerly. The west to east dilation-displacemen t positioned the porphyry copper deposit on its sid e, resulting in a cross section of the of the porphyry system visible in the pit with its top toward the west end. Mining has revealed an altera tion geometry displaying the original pyrite-rich cap (present-day leached sericite-limon ite on the west end of the Yerington pit, grading d ownward easterly to quartz-sericite-pyrite alteration and potassic alteration in the central p ortion of the pit, continuing to a soda-flooded roo t zone at the eastern end).

Secondary oxide copper formed much of the upper Yer ington Deposit. Chrysocolla was the dominant copper oxide mineral, occurring as fracture coatings and fillings to a depth of approx imately 400 feet below the surface. Below the 4,100 -ft level, chalcopyrite is the dominant copper sulfide mineral with minor bornite primarily hosted in A-type quartz veins in the older porphyr y dikes. The un-mined mineralized material below the current pit bottom is primarily of chalcopyrite mineralization.

Exploration and Drilling Results

Exploration work on the Yerington Copper project co mmenced with a technical review of all available hi storical information relating to mineralization in and around the Yerington pit. A h uge inventory of Anaconda data was available at the Anaconda Collection – American Heritage Center, University of Wyoming at Laramie. Approximately 10,000 pages of drill hole records fr om the library were scanned. The records included drill hole lithology, assays, and/ or survey coordinates for almost 800 drill holes. A lthough some holes contained only lithologic or assay summary information, 558 holes contained adequate detailed assay, hole location an d orientation information to be used in a resource estimation. Core from historical drillin g left on site by Anaconda was photographed, descri bed and selected intervals from 45 Anaconda core holes were shipped to Skyline Labs fo r re-assay.

Information obtained from the review of historical information was used to guide a two-pronged program of drilling during the last half of 2011. A total of 21,856 feet were drilled in 42 hol es. The core holes and four RC holes were drilled t o twin Anaconda core holes, while the remaining RC holes were targeted for expansion of m ineralization laterally and below historic drill in tercepts along the perimeter of the Yerington pit to support a NI 43-101 compliant resource estimate and technical report.

The data review and drilling results of the 2011 pr ogram clearly indicated that mineralization at Yeri ngton is open to depth and along strike. Many of the historic holes in the pit were stopped in mineralization. Drill hole intercepts along the western edge of the pit are some of the best in the SPS database. Twin hole SP-04, drilled by SP S at the northwest end of the pit, intercepted 524. 5 feet averaging 0.35%TCu starting at a depth of 228 feet including 88 feet of 0.69%TCu at a depth of 265 feet. Exploration hole SP-36, locate d along south central margin of the pit intercepted 95 feet averaging 0.28% TCu at a depth of 230 feet. Details of the 2011 drilling program a re in the NI 43-101 compliant technical report for the Yerington Copper Project completed by Tetra Tech, Inc. of Golden, Colorado in February 2012.

A drilling program to sample residuals (historic du mps and tailings) at the Yerington site was complet ed in September 2012. A total of 9,585 feet of sonic drilling in 95 holes have provided ma terial for the characterization of the vat leach ta ils, heap leach pads, and the W-3 sub-grade waste dump. The samples have been sent to Metcon La bs in Tucson, Arizona for metallurgical testing. Th ese residual resources, historically estimated to total 124 million tons of mineralized material, reflect a notable potential to enhance th e MacArthur project once they become NI 43-101 compliant.

In September 2012, SPS reached a voluntary agreemen t with the U.S. Environmental Protection Agency (EP A) to participate in upgrading the system which manages fluids from the historic minin g operation at the Yerington mine site. In exchange for SPS's participation in this work, the Company obtained a site-wide 'Covenant Not to S ue' for the contamination left at the site by forme r owners and operators of the historic mine operations.

The agreement provides for immediate environmental improvements to the site and allows SPS to continue exploration at the site while working cooperatively with the EPA, Nevada Departme nt of Environmental Protection and the community. T he Agreement's 'Covenant Not to Sue' strengthens SPS's 'Bona Fide Prospective Pu rchaser Defense' against liability resulting from t he contamination at the site prior to SPS's purchase.

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Sampling, Analysis and Security of Samples

Tetra Tech's review of sample preparation, handling , analyses, and security procedures for the Yeringt on drilling and sampling program has determined that the Company's current practices meet NI 43-101 and CIM defined requirements.

Samples taken during the period from 1952 to 1979, when Anaconda operated the Yerington Mine, includin g samples used for the determination of mine head grades, lithology, densi ties, and metallurgical performance were determined by Tetra Tech to be representative of the deposit. While no details are available regardi ng Anaconda's exact assaying protocol and quality c ontrol during the period the Yerington copper mine was operating, public records of profit and cost confirmed that the techniques and procedu res implemented conformed to industry standards for that era.

SPS explored the Yerington Mine Copper property wit h both RC and diamond core drilling methods. The dr illing program was supervised in the field by the project geologist for monitoring r ecovery, proper sample handling and accuracy in lab eling. Approximately 4,300 samples were collected during the 2011 program and shipped for sample analyses. The samples were analyzed for total copper (TCu), gold, and a 47 element trace element package. Samples representing oxide mineralization and acid soluble sulfide copp er were also analyzed for acid soluble copper and for ferric sulfate soluble copper. Rock quality designations (RQD) and magnetic susceptibil ity measurements were taken on all core which was photographed following geologic logg ing.

The RC samples are collected in a conventional mann er via a cyclone and standard wet splitter, placed in cloth bags that are pre-marked by SPS personnel at five-foot intervals and include a numbered tag inserted into a plastic bag bearing th e hole number and footage interval. Collected samples, weighing approximately 15 to 20 pounds each, are wire tied and then loaded onto a t en-foot trailer with wood bed allowing initial draining and drying. Each day SPS personnel or the drillers at the end of their shift , haul the samples to SPS's secure sample preparation warehouse in Yerington, Nevada where th e samples are dried, loaded on plastic lined pallet s, weighed, and trucked by Skyline Assayers & Laboratories (Skyline) personnel to Skyl ine's sample preparation facility in Battle Mountai n, Nevada. A chain of custody form accompanies all shipments from Yerington to Battle Mountain. Once Skyline preps each sample in its Bat tle Mountain facility, approximately 50 gram sample pulps are air-freighted to Skyline's analytical laboratory in Tucson, Arizona for analyses and assay.

Samples from the core drilling program are handled in a similar manner. Core samples with a diameter o f approximately 2.75 -inches (HQ) are placed in wax-impregnated, ten-foot capacity ca rdboard boxes and delivered to SPS's secure sample warehouse in Yerington, Nevada by the drill crew following each 12-hour shift. The co re is logged by a SPS geologist who marks appropria te sample intervals (one to nominal five feet) with colored flagging tape. Lines are ma rked along the length of core with red wax crayons to indicate where the core piece should be sawed. Each core box, bearing a label tag showin g drill hole number, box number, and box footage in terval, is then photographed. Rock quality designations (RQD), magnetic susceptibility , and recovery measurements are taken. Core is then loaded on a pallet, shrink wrapped, and secured with wire bands for trucking by Skyline personnel to Skyline's sample preparation facility in Battle Mountain, Nevada. The core is sawed in half by Skyline personnel, one half des ignated for sample preparation/assay, the second ha lf placed in its core box for return to SPS. Chain of custody procedures for core shipments picked up by Skyline at the SPS core shed follow t he format for RC samples.

Drilling samples from the Yerington Copper Project were analyzed by Skyline in Tucson, Arizona, which is accredited by the American Association for Laboratory Accreditation (A2LA - ce rtificate no. 2953.01) and by ISO17025-compliant AL S Minerals Laboratories in Sparks, Nevada. SPS implements a quality assurance and qual ity control assay protocol whereby either one blank or one standard is inserted with every ten samples into the assay stream. Rejects fr om the previously analyzed samples are sent to ALS Minerals in Reno, Nevada for check assays.

Mineral Resources

Tetra Tech, Inc. of Golden, Colorado completed a NI 43-101 compliant independent resource estimate and technical report update for the mineralization in and around the historic Yerington Mine in November of 2013 which supersedes its prev ious report completed in February 2012. The updated resource is based upon an additio nal 232 historic Anaconda holes unavailable when th e previous report was completed. The current resource now includes over 800 borehole s.

These additional holes are well distributed through out the deposit and provided infill and extensional information to the previously used data, allowing upgrades in classification, improved grade estimate and a new resource definition.

The increases to the February 2012 resource are as follows. Using a 0.12% TCu copper cutoff, measured and indicated oxide and chalcocite resources increased 28% in tons, 9% in grade, and 3 7% in pounds of contained copper while the inferred resource increased 5% in tons, 14% in grade, and 21% in contained copper. Using a 0.15 % TCu copper cutoff, the primary measured and indic ated resources increased 12% in tons, 12% in grade, and 25% in contained copper whi le the inferred resource increased 4% in tons, 11% in grade, and 13% in contained copper.

Using a cutoff grade of 0.12%, the Yerington Mine's measured and indicated acid-soluble oxide/chalcocite mineralization includes a measured and indicated resource of 23.5 million tons averaging 0.25% TCu (118 million pounds of copper) and an inferred resource of 25.9 million tons of 0.23% TCu (118 million pounds of copper). Using a cutoff of 0.15% TCu, the measured and indicated primary copper resource contains 105 million tons averaging 0.30% TCu (633 million pounds of copper) and an inferred primary copper resource of 128 million tons of 0.23% TCu (600 million pounds of copper).

The updated tons, grades, and pounds are presented in the table below as well as the percent increase from the February 2012 resource estimate.

**YERINGTON COPPER PROJECT RESOURCES USING SELECTIVE CUTOFF FOR OXIDE AND SULFIDE [1,2,3]**

| | | | | | | % CHANGE FROM 2012 ESTIMATE[4] | | |
|---|---|---|---|---|---|---|---|---|
| **MEASURED** | | **Cutoff** | **2013 ESTIMATE** | | | | | |
| | | **%Cu** | Tonsx1000 | Grade | Lbsx1000 | Tonsx1000 | Grade | Lbsx1000 |
| **Oxide and Chalcocite Material** | | 0.12 | 6,500 | 0.25 | 33,000 | 8% | 10% | 17% |
| **Sulfide (Primary Material)** | | 0.15 | 31,000 | 0.33 | 205,000 | -3% | 10% | 8% |
| | ***Combined*** | ***0.12,0.15*** | ***37,500*** | ***0.32*** | ***238,000*** | ***-1%*** | ***10%*** | ***9%*** |
| | | | | | | **% CHANGE FROM 2012** | | |
| **INDICATED** | | **Cutoff** | **2013 ESTIMATE** | | | **ESTIMATE[4]** | | |
| | | **%Cu** | Tonsx1000 | Grade | Lbsx1000 | Tonsx1000 | Grade | Lbsx1000 |
| **Oxide and Chalcocite Material** | | 0.12 | 17,000 | *0.25* | 85,000 | 37% | 9% | 47% |
| **Sulfide (Primary Material)** | | 0.15 | 74,000 | *0.30* | 428,000 | 19% | 15% | **35%** |
| | ***Combined*** | ***0.12,0.15*** | ***90,000*** | ***0.29*** | ***513,000*** | ***22%*** | ***12%*** | ***37%*** |
| | | | | | | **% CHANGE FROM 2012** | | |
| **MEASURED + INDICATED** | | **Cutoff** | **2013 ESTIMATE** | | | **ESTIMATE[4]** | | |
| | | **%Cu** | Tonsx1000 | Grade | Lbsx1000 | Tonsx1000 | Grade | Lbsx1000 |
| **Oxide and Chalcocite Material** | | 0.12 | 23,500 | 0.25 | 118,000 | 28% | 9% | 37% |
| **Sulfide (Primary Material)** | | 0.15 | 105,000 | 0.30 | 633,000 | 12% | 12% | 25% |
| | ***Combined*** | ***0.12,0.15*** | ***128,000*** | ***0.29*** | ***751,000*** | ***14%*** | ***11%*** | ***26%*** |
| | | | | | | **% CHANGE FROM 2012** | | |
| **INFERRED** | | **Cutoff** | **2013 ESTIMATE** | | | **ESTIMATE[4]** | | |
| | | **%Cu** | Tonsx1000 | Grade | Lbsx1000 | Tonsx1000 | Grade | Lbsx1000 |
| **Oxide and Chalcocite Material** | | 0.12 | 25,900 | 0.23 | 118,000 | 5% | 14% | 21% |
| **Sulfide (Primary Material)** | | 0.15 | 128,000 | 0.23 | 600,000 | 4% | 11% | 13% |
| | ***Combined*** | ***0.12,0.15*** | ***154,000*** | ***0.23*** | ***718,000*** | ***4%*** | ***10%*** | ***14%*** |

[1]Independent qualified person, Dr. Rex Bryan, prepared and supervised the preparation of these mineral resources.

[2]All estimated resources are shown using a 0.12% and 0.15% copper cutoff for oxide and sulfide respectively.

[3]Minor rounding errors may occur

[4] *NI 43-101 Technical Report, Feb. 17, 2012*

Based on benchmarking of the Yerington Deposit to similar deposits, Tetra Tech has determined that reasonable base case cutoff grades for the leachable (oxide/chalcocite) SX/EW recoverable copper and for flotation recoverable primary sulfide resources are 0.12% TCu and 0.15% TCu, respectively.

The results of the 2013 NI 43-101-compliant resource estimate compare favorably to the estimates of copper remaining in and around the Yerington pit after the mine shut down (K.L. Howard, Jr., Anaconda Internal Memo, 1979). The 1979 estimate contained no classification for measured, indicated, or inferred, so direct comparison can only be made when considering all classes of the current estimate, but was reported at 121 million tons with an average grade of 0.34% TCu.

The 1979 estimate cited approximately 84% of the total contained copper (696 million pounds of copper in 97.8 million tons with an average grade of 0.356% Cu) as being within the original Anaconda pit design, suggesting that a significant portion of the Yerington resource may be mined without a pushback or major changes to the upper walls of the Anaconda pit.

The current Tetra Tech resource estimate is based upon SPS's 2011 drilling as well as 792 historic drill holes taken from approximately 10,000 scanned pages of assay and/or geologic data which w ere reviewed and digitally recorded by SPS personne l and from 57 Anaconda cross sections in use at the time of mine closure. The di gital data entry was validated by Tetra Tech agains t historic sections and was considered to be compliant, based upon results of 18 twin holes a nd 5,446 feet of core from Anaconda holes which wer e assayed by SPS. The twinned drill intercepts statistically confirmed that the new com pliant data support use of the historical data, as did the new core assays which were well within the expected norms for corroborating the old with new data.

The Tetra Tech resource estimate is included with a description of the project history, geology, miner alization, sampling procedures, and laboratory Quality Assurance/Quality Control proced ures. The NI 43-101 Technical Report is available a t www.sedar.com. The Qualified Person for the Yerington Copper Project resource es timate and the technical report is Rex Clair Bryan, Ph.D., Sr. Geostatistician for Tetra Tech, Golden Colorado.

Future Work Plans

Quaterra believes the Yerington Copper Project has potential for significant additional copper resourc es. Historic and current drilling data indicate that horizontal and vertical limits to the mineralization at the Yerington Mine have not yet been found. Additional exploration and in-fill drilling is planned to both expand and upgrade the current NI 43-101 compliant copper resources of the project.

Future drilling will target the pit area below the 3,000 feet level where only four deep historic hole s (D158, D152, D174, and V2-28-33) have actually explored the deep vertical projection of m ineralization. Three of five holes drilled along a N-S oriented section through the pit during the period of 1969 -1970 defined a series of nested , concave upward, grade shells that are elongated d own the N 70° dip of the dikes with the 0.2% Cu zone extending to approximately the 2,600 l evel; an overall dip distance of 2,200 feet. Althou gh the program encountered an increasing ratio of pyrite to chalcopyrite, there was no indication of a "barren core", and the porphy ry dikes showed a "remarkable continuity" down dip. The drilling data also established a 250 to 500 foot thick zone of fracture hosted and disse minated molybdenum mineralization that wraps around the sulfide zone near the chalcopyrite / chalcopyrite-pyrite transition. IP geophysics in the pit area is also being considered to target deep holes to explore this keel of the Yerington porphyry system.

A review of historic information and additional met allurgical testing is planned for both the residual s and core from sulfide mineralized zones below the pit and oxide copper mineralization in th e vicinity of the mine. The test results will be us ed in an economic assessment of the property and an assessment of the merits of a possible integration of the MacArthur and Yerington operations.

**Bear Deposit – Yerington, Nevada, USA**

Acquisition and Staking of Mineral Claims

The Bear Deposit covers an area of at least 2 squar e miles. A portion of the Bear Deposit that lies be low the northeast corner of the Yerington Mine property was acquired in the SPS purchase of A rimetco's Yerington assets from bankruptcy court. I n December of 2013, Quaterra announced four option agreements covering 1,305 acr es of private land north and east of the Yerington Mine Site that further covers the Bear copper deposit. Under the terms of the agreement Qu aterra has an exclusive right to explore these parc els and has an option to purchase the properties and the appurtenant surface water rights and supplemental storage water rights. Private pro perties related to the option agreements are located in Township 13 North, Range 25 East in Sections 2, 3, 10, and 11 and Township 14 North, Ra nge 25 East in Sections 29, 32, 33, and 34.

Expenditures to date

Acquisition costs incurred to December 31, 2013 wer e $340,646 and exploration expenditures were $12,36 6 for a total of $353,012. There were no acquisition or exploration expenditures at the Bear Deposit prior to 2013.

Location, Access, and Infrastructure

The Bear Copper Deposit is located near the geograp hic center of Lyon County, Nevada, US, along the ea stern flank of the Singatse Range and extending eastward towards the Walker River. It lies just northeast of the historical Yerington op en pit mine and north of the town of Yerington. The property is easily accessed by a net work of paved and dirt roads. Topographic coverage is on the US Geological Survey "Mason Butte" 7.5' topographic quadrangle.

History

The Bear Deposit was discovered in 1961 by Anaconda condemnation drilling in the sulfide tailings disp osal area and was further delineated by Phelps Dodge in the 1960's and 1970's. Currently the deposit is open in several directions and has never been consolidated under a singer owner. A portion of Quaterra's holdings was not pre viously accessible by Anaconda or Phelps Dodge and is adjacent to the highest grade mineralization discovered during exploration of the area.

Quaterra has collected data from the Anaconda Colle ction – American Heritage Center, University of Wyo ming at Laramie -from 49 drill holes totaling 126,400 feet that define a porphyry copper system covering an area of at least 2 square miles. Approximately 25% of this area, controlled by Anaconda in the 1960s, has an estimat ed 500MT of mineralized material with an average co pper grade of 0.40% (Dilles and Proffett, 1995). This estimate is not NI 43-101 com pliant. The reference for this estimate does not in clude information regarding cut-off grade or methods used for the calculation and does not de lineate categories for a resource. The estimate is considered reliable as it was calculated by the principal geologist with Anaconda (one of the w orld's premiere copper companies of the time) who w as responsible for the Bear drilling program in 1967.

Geology and Mineralization

The Bear Deposit is a large porphyry copper system that occurs below 500 to 1,000 feet of valley fill and Tertiary age volcanics. The mineralization of the deposit occurs predominantly in Jurassic age Quartz Monzonite, Border Phase Quar tz Monzonite, and Quartz Monzonite porphyry dikes. There does not seem to be any prefe rence between to the Jurassic rock type and the sul fide occurrence. Copper mineralization occurs most commonly as chalcopyrite with minor bor nite within platings and veinlets with fresh feldsp ar and shreddy biotite. No copper oxide mineralization is present and only minor occu rrences of chalcocite have been noted. Molybdenite is a common sulfide within the deposit, occurring most commonly with the best sulf ide mineralization. However, molybdenite has been a nalyzed on only about 20% of the core samples and more studies are necessary to bett er determine the molybdenite occurrence.

The deposit is displaced by the gently east-dipping normal fault known as the Bear fault. The fault is defined by strongly sheared dark clay gouge with andesite and sulfide fragments. On the w estern part of the deposit the mineralization occur s within the upper hanging wall of the fault while to the east the mineralization occurs deeper within the lower footwall.

Future Plans

The large size of the Bear deposit and potential fo r higher grades than district averages (drill holes have been defined with 150 feet grading 0.8% copper or more) make the project a high priori ty target for future drilling. Together with molybd enum mineralization representing a potentially significant by-product credit, the part ially defined porphyry copper system clearly merits an exploration drilling program to expand and upgrade the historic data for definition of a NI 43-101 compliant resource.

**Nieves Silver Project, Mexico**

Property Description and Acquisition

The Nieves Project is located in the Francisco R. M urguía Municipality of the Zacatecas Mining Distric t near the southeastern boundary of the Sierra Madre Occidental Physiographic Province in central Mexico. The Property is located approxim ately 150 km northwest of the state capital of Zacatecas and 90 km north of the mining community of Fresnillo. The property consists of 18 concessions covering approximately 12,064.1 ha. The concessions are registered in the name Minera Cerro Gregorio, as of August 5, 2011, a Mexican company wholly owned by Quaterra. The Nieves Property is jointly owned by Quaterra (50%) and Blackberry Ventures 1, LLC. ("Blackberry") (50%).

Kennecott Exploration Company ("Kennecott") acquire d the Nieves property on January 16th, 1995, throug h an option agreement with Mexican concessionaires by making specified option payments over five years, and advance minimum royal ty payments. On March 13th, 1998, Kennecott transferred its rights under the Ni eves option to Western Copper Holdings Ltd. ("Weste rn") in consideration for an uncapped 2% NSR on certain core concessions and a 1% NSR on others. Western assigned its rights to the Nieves P roject to Quaterra on March 26, 1999. The Nieves concessions are subject to a maxim um 3% NSR to the original concession holders, which the Company may purchase at any time for US$2 million. Kennecott's royalties on the property were later sold to Royal Gold Inc. on January 24, 2007.

On April 10th, 2003, Quaterra completed a limited p artnership financing with Blackberry Ventures 1, LL C (Blackberry), whereby Blackberry could earn a 50% interest in the Property by fundin g two exploration programs of US$750,000 each.

The initial payment of US$750,000 received in the 2 003 Fiscal Year was expended on a 5,300-meter drill program on the Nieves Property. During the 2004 Fiscal Year, Blackberry elected to continue by advancing a further US$750,000 towards a follow-up drill program completed in May 2005, thereby earning a 50% interest in the Property. The partners signed a joint venture agree ment in 2006 and have jointly contributed to all exploration costs subsequently incurred.

There are no known significant environmental liabil ities related to the current exploration of the Nie ves Property. The areas of primary mineral exploration are generally flat-lying, spars ely populated with a few cultivated areas and the r emaining land area used for the periodic grazing of livestock. Minimal rehabilitation measur es such as stabilizing slopes and planting local fl ora in areas of disturbance is usually sufficient to satisfy the ecological authorities, t he Instituto de Investigaciones Forestales, Agricol as y Pecuarias ("INIFAP"), a government office based in Calera, Zacatecas.

There is little to no surface water for exploration or mining activities but an abundance of ground wa ter exists and the ownership of mineral rights generally allows access to ground water as n eeded. There are no significant factors or risks th at may affect access, title, or the right or ability to perform work on the property. Exploration drilling has been conducted under a permit issued by the Secretaria de Medio Ambiente y Recursos Naturales (SEMARNAT). The permit expired on October 15, 2012, but may be renewed by applicati on.

Since inception to December 31, 2013, the Company h ad incurred $1,754,434 (2012 - $1,623,310) for acqu isition costs and $4,811,803 (2012 - $4,692,483) for exploration expenditures giving a total of $6,566,237 (2012 - $6,315,793) for its in terest in Nieves. The Company's joint venture partner, Blackberry JV had spent, including the company's administration fee, US$7,024,128 for its 50% interest in Nieves.

Location, Access and Infrastructure

Quaterra/Blackberry JV exploration activities are c oordinated from the small town of Nieves (now re-na med Francisco R. Murguia) where they maintain an office and a house. The town of Ni eves is accessed via a 17 km paved road from Highwa y 49. The nearest major population and service centre to Nieves is the mining town of Fresnillo located 90 km to the south. Fresnillo has a population of approximately 75,000 and services the Fresnillo Mine operated by Peñoles. Fresnillo offers a professional work force experi enced in mining and related activities in addition to most other supplies and services. Inter national airports are located within approximately a three hour drive of the property in the city of Zacatecas to the south, and in Torreõn (Coa huila State) to the north. Road access is excellent with the main paved highway to Nieves running along the northern portion of the property. A network of dirt roads and trails provide access to the historical mining operations and extend southward to all areas of the property. Drill and access roads can be built easily as most of t he Nieves Property is flat-lying with only a few dry creek beds.

The Nieves property lies within the Mexican Altipla no or Mesa Central region. This region is flanked t o the west by the Sierra Madre Occidental and to the east by the Sierra Madre Orie ntal mountain ranges. The Altiplano is dominated by broad alluvium filled plains between rolling to rugged mountain ranges and hills reachin g up to 3,000m above mean sea level and average ele vations in valleys of approximately 1,700m. Elevations on the Nieves property range fro m 1,900m. to 2,000m. The terrain is generally flat- lying with a prominent north-south trending ridge along the eastern portion of the pro perty with moderate to vertical slopes. There is ve ry little human habitation on the property, with only a few widely scattered farm houses, altho ugh the town of Nieves directly borders the propert y to the northeast.

The La Quinta field office, as well as core logging , cutting and storage facilities are located on the Nieves Property. Other infrastructure in the area includes: (1) a power line adequate to support a small mill (eg. 100 tonnes per day), (2) a spur of the main Zacatecas rail line that connects the city of Rio Grande, located 18 km to t he south, and (3) operating smelters in San Luis Po tosi (copper and zinc, approximately 350 km to the south) and in Torreõn, Coahuila state (Peñoles lead-zinc smelter, approximately 200 km north).

History

The first discovery on the area covered by the Niev es Property was the Santa Rita Vein in 1560 by Span ish explorers. Soon after in 1574 the Concordia vein was discovered. The Santa Rita and C oncordia-San Gregorio-Dolores veins were the focus of mining by the Spanish and Mexican miners until 1880 when an English company, the Mexican Rosario Mining Company, and two Califor nian companies, the Almaden Mining Company and the Concordia M. and M. Company, worked in the area. These companies worked primari ly on the Concordia vein while a small independent miner Gonzáles Piñera wor ked concurrently on the San Gregorio vein. Prior to the 1910 revolution, which halted all production in the Nieves District, total ore pr oduction in the District was estimated at 50,000 to nnes. The only production reported is from the Concordia Mine where 5,414 tonnes at a grade of 4,065 g/t silver were produced.

Between 1910 and 1978 several companies attempted t o de-water, sample, and re-open the historical work ings in the Concordia and Santa Rita mines, and were largely unsuccessful. The Santa Rita vein and refurbished mill and flotation plant were purchased by Fomento Minero in 1978; they operated the mine until 1987. Fomento Mi nero also sank three shafts and deepened a historic shaft along the Concordia-San Gregorio vein system during the 1970's. The flotati on mill was capable of running 100 tonnes/day durin g this time and was fed 50% tailings and 50% ore with an average head grade of 130 g/t s ilver, 2% lead, 2.4% zinc and 2.5% antimony, accord ing to Consejo Recursos Minerales. Today, all that remains on the site are the building foundations, abandoned shafts and power lines.

In the early 1990's, a group of Mexican concessiona ires assembled a land position that Kennecott optio ned on January 16th, 1995. Exploration work completed by Kennecott included ge ologic mapping, surface sampling, geophysical surve ying and reverse circulation (RC) drilling of the Gregorio North, California and Orio n West veins. The drilling intersected several zone s of significant silver mineralization hosted by two distinct styles of mineralization. Dr ill hole NV08 in the California area intercepted tw o separate 2m intervals of high grade silver vein mineralization that returned assay valu es of 367 g/t and 795 g/t silver at depths of 108m and 116m, respectively. In contrast, drill hole NV03 intersected a large low grade zone of sil ver mineralization at a depth of 180m depth that av eraged 82 g/t silver over 28m. Drill hole NV03 also encountered a high grade silver vein at 148m depth that returned 254 g/t silver over 2m . Drill hole NV06 also encountered a large zone of low-grade silver mineralization that returned 67 g/t silver over 68m.

After acquiring the Nieves option from Kennecott in 1998, Western Copper (Western) drilled 5 RC holes testing the California vein system. The holes were drilled in the area around hole NV08 . Western also twinned hole NV08 and reproduced sim ilar assay values for the intercepts reported by Kennecott including 890 g/t silver over 1.0m in drill hole WCNV01. Holes drilled to interc ept mineralization below drill hole NV08 returned assay values of 841 g/t silver over 0 .45m, 109 g/t silver over 0.8m, and 1,081 g/t silver over 0.35m in drill hole WCNV04.

Systematic drilling began after Quaterra bought the property from Western in 1999. Since Kennecott imi tated exploration drilling in 1995, a total of 61,608 meters have been drilled in 205 holes, all but thirteen of which were completed during the Quaterra/Blackberry earn-in and JV.

Geology

The Nieves Property lies on the western flank of th e Central Altiplano in Mexico, just east of the Sie rra Madre Occidental ranges. Basement rocks underlying the western Altiplano are a Mesozo ic assemblage of marine sedimentary and submarine v olcanic rocks belonging to the Guerrero Terrane that sit unconformably on Precambrian continental rocks.

The late Cretaceous to early Tertiary Laramide Orog eny folded and thrust faulted the basement rocks th roughout area and preceded the emplacement of mid-Tertiary plutons and related dyk es and stocks. Unconformably overlying the Mesozoic basement rocks in the western Altiplano are units from the late Cretaceous to Ter tiary, Sierra Madre Occidental magmatic arc. These rocks consist of a "lower volcanic complex" comprising an assemblage of late Cretaceou s to Tertiary volcanic, volcaniclastic, conglomerat e, and limestone rocks unconformably overlain by a Tertiary "upper volcani c supergroup" of caldera related, rhyolite ash-flow tuffs and flows. Eocene to Oligocene intrusions occur throughout the Altiplano and are r elated to the later felsic volcanic event. A final stage of NE-SW extensional tectonics accompanied by major strike-slip fault movement dur ing the Miocene developed much of the basin and ran ge topography currently exhibited in the area. Subsequent erosion of the ranges has c overed most of the valleys.

The Mesozoic section on the Nieves property is repr esented by a thick sequence of fine laminar grey to dark green argillite beds up to 1m thick belonging to the late Cretaceous Caracol Form ation which is host to silver mineralization on the property. The argillite beds are more abundant to the south in the Santa Rita area and to the west in the Concordia area. The Mesozoic secti on is isoclinally folded with an axial plane cleavage. Fold axes strike east-northeast to east and beds strike east-west and dip steeply south to near vertical.

Tertiary clastic rocks unconformably overlie the Ca racol Formation on the east side of the Nieves Prop erty. The shallow dipping Tertiary clastic section includes a 1 to 10m thick conglomer ate composed of rounded to sub-rounded limestone bo ulders in a sandstone groundmass. Above the limestone conglomerate there is up to 130 m of conglomeratic sandstone with thin bands of cal careous conglomerate. Overlying the conglomerate is 40m to 50m of Tertiary volcanic rocks composed of rhyodacitic to andesitic welded tuff. A thin 1.5 to 2m unit of grey to dark grey basalt occurs above the tuff and is in turn ov erlain by at least 56m of porphyritic rhyolite flow s striking north-northwest and dipping northeast. These flows underlie a prominent north t rending ridge on the east side of the Nieves proper ty and are the host rock for manganese-calcite veins and breccia mineralization previously exploited by local miners.

The oldest structures on the Nieves Property are th e folds which affect the Mesozoic argillite beds. T hese structures are likely related to compression during the Laramide Orogeny in the Cret aceous. Thrust faults are also common features of s tructures attributed to the Laramide Orogeny and several have been suspected to occur on the Nieves Property. Post-Laramide structures affe cted both the Mesozoic Caracol Formation sedimentary rocks and the Tertiary volcanic and sedimentary rocks. These structures include: (1) faults that strike 330° to 000° and dip moderately northeast to east with east plunging slicken-sides, (2) faults that strike 170° to 180° and dip steeply to the west, and (3) major vein structures that strike 240° to 270° and dip 60 ° to 90° to the south.

Mineralization

Silver mineralization on the Nieves Property is cla ssified as low-sulphidation epithermal mineralizati on and is the primary exploration target. Epithermal silver veins are the dominant type of de posit within the Altiplano Region of Mexico that in cludes world-class examples such as Pachuca, Zacatecas, Fresnillo, and Guanajuato. The closest example is the Fresnillo deposit, located 9 0 km to the south of the Nieves Property. The Fresnillo deposit includes mantos and chimneys, stockworks, disseminated mineralization, and veins that show vertical mineralogical zonation. Typically in these veins, the high-grade silver (gold) zone is constrained in elevation within the vein structure to up to 500m vertically, or between 180 to 750m depths belo w which the veins becomes dominated by base-metal s ulfides and progressively lower in precious metal content.

The most economically significant mineralization at Nieves occurs in anastomosing carbonate-quartz-sul phide vein systems and stockworks that have been defined over a total strike length o f 3.8 kilometers by 54,814 meters of drilling in 18 7 holes. The system develops to a maximum true width of in excess of 200 meters and h as a proven down dip extent of approximately 525 me ters.

The carbonate-quartz-sulphide veins contain the bes t grades of silver, gold, lead and zinc. They consi st of calcite that is partially to totally replaced by grey to white, chalcedonic, fine-graine d quartz veins and veinlets. Individual veins are f rom centimetres to 1.5 m wide with up to 50% sulphide minerals. Sulphides include pyrite, st ibnite, sphalerite, galena, chalcopyrite and the si lver sulphosalt freibergite, as well as minor proustite, pyrargyrite, and jamesonite.

The central and most important of the three vein sy stems is the Concordia-San Gregorio-Dolores system which includes both the La Quinta and Gregorio North zones. Mineralization along the Concordia-San Gregorio-Dolores vein has a known tot al strike length of 1300 meters and a true width up to 100 meters. The mineralized zone in the Gregorio North area is approximately 1200 m eters long and up to 200 meters wide. The La Quinta and Gregorio North zones are the subj ect of the August 9, 2012 Caracle Creek 43-101 comp liant resource estimate but only the La Quinta zone is included in a proposed open pit a s shown in the October 31, 2012 preliminary economi c assessment.

The attitude and size of the mineralized zones alon g the Santa Rita zone to the south and California v ein system to the north are not well understood at this stage of exploration. Drilling a long the Santa Rita system suggests that the minera lized zone is at least 750 meters long and may be up to 340 meters wide. The mineralized zone along the California vein system is at least 550 me ters long and may be up to 130 meters wide.

Recent drilling has expanded the size of mineralize d zones along all vein systems and additional drill ing may significantly enhance the resources and economics of the project. Many of the vein systems are open along strike and all remain open to depth. Because some zones could be terminated along strike by late vertical f ault structures, the discovery of strike extensions to the Nieves vein systems will only require continued drilling guided by the promising results of surface geophysical surveys.

Exploration and Drilling Results

Exploration between 2003 and 2010 by Quaterra and B lackberry included air photograph interpretation, s urface sampling, geologic mapping, two geophysical surveys, six drill programs and thr ee 43-101 independent technical reports, two of whi ch include 43-101 compliant resource estimates, all prepared by Caracle Creek Internatio nal Consulting Inc. of Toronto, Ontario ("Caracle C reek").

In April 2011, Quaterra contracted Mira Geoscience to invert ground magnetic data from the Nieves Prop erty. The results indicated that the geophysics model was poorly constrained due to insu fficient data particularly along the western edge o f the magnetic low anomaly. In December, 2011, Zonge International (Zonge) was con tracted to conduct additional ground magnetometer s urveying along 14 N-S lines with a spacing of 200m between lines. The survey extende d the magnetic low an additional 1200 meters west f or a total E-W length of 2200m.

In June and July 2011, Zonge conducted IPR surveys along 9 lines that indicated that several of the ve in systems including the Santa Rita, Dolores, Nino and Orion veins extended to the weste rn edge of the existing survey coverage. The covera ge was extended in the first quarter of 2012, with a survey consisting of six lines tota lling 28.4 line-kilometers, of vector CSAMT and CSI P and nine follow-up lines of pole-dipole IPR totalling 16.5 line-kilometers. The six lines of vector CSAMT/CSIP were spaced 400 met ers apart and covered 1,000 hectares west of the main veins in the area of the enigmatic magnetic low.

The geophysical anomalies were followed up by surfa ce mapping and sampling. The most interesting area identified to date is West Santa Rita, where the mapping identified two groups of na rrow, sub-parallel 2 to 30 centimeters wide calcite-quartz veinlets, some of which contain strong gold and silver mineralization. Gold values range from nil to 8.11 g/t over 0.2 m and silver va lues range from nil up to 253 g/t over 0.4 m. Outcrop in the area is sparse but at least one s ample from a fault zone coinciding with the anomalo us IP zone defining the Nino vein is anomalous in gold and silver.

Quaterra and Blackberry completed two more phases o f drilling (VII and VIII) between March 2010 and Oc tober 2011, consisting of 73 drill holes and totalling 18,547 m. Most of the drilling concentrated on the Concordia-Dolores-San Gregorio vein system, but significant amount of drilling is located in the California and Santa Rita vein systems as well.

The drill program was very successful at increasing the size of known mineralized zones along all the major vein systems. Mineralization along the Concordia vein system was extended an add itional 400 m, to a total of approximately 1,300 m. The length of known mineralization along the California vein system was increased to a total of approximately 550 m and it remains open t o the east. Phase VII and VIII drill programs were successful in doubling the strike len gth of the Gregorio North mineralized zone located north of the San Gregorio vein, extending the strike length of the mineralized zone to approximately 1200 m. A total of 15 drill holes systematically tested the Santa Rita vein system over 500 m along strike, and the total lengt h of mineralization was extended to approximately 7 50 m and remains open to the west.

The best intersections include 149 g/t Ag and 0.11 g/t Au over 31.25 m, which includes 6320 g/t Ag and 1.82 g/t Au over 0.25 m in drill hole QTA123 along the Concordia West vein, 104 g/t Ag ov er 19 m, including 6410 g/t Ag over 0.1 m and 5960 g/t over 0.1 m in drill hole QTA137 along the California vein, and 152.2 g/t Ag and 0.12 g/t Au over 57 m in drill hole QTA144 in the Concordia West area.

The results of the program were the subject of a fo urth technical report and the third NI 43-101 compl iant independent resource estimate prepared for the Nieves project by Caracle Creek. T he most recent estimate, dated August 9, 2012, was incorporated into the October 31, 2012 preliminary economic assessment ("PEA") for th e Nieves project by M3 Engineering & Technology Corp. ("M3") of Tucson, Arizona.

During preparation of the PEA, Quaterra tested the strike extension of mineralization at Nieves with 8 core holes totaling 3,060 meters. Hole QTA 190 was collared to test an induced polarizatio n (IP) anomaly on the Orion vein, a 2 kilometer wes tward extension of the Gregorio vein. The hole intersected 0.8 meters of 1,865 grams per tonne (g/t) silver (54.5 oz/ton) which is part of a larger vein interval starting at 243.6 meters averaging 341 g/t silver (10.0 oz/ton). Hole s QTA 191 and QTA 192, drilled 200 meters west and east of QTA 190, intersected 0.85 meters of 289 g/t silver and 1.1 meters of 284 g/t silver respectively. The new zone is open laterally and at depth.

Three holes (QTA 185-187) tested coincident IP and geochemical gold anomalies on the western extension of the Santa Rita vein. Holes QTA 186 and QTA 187 intersected 5.1 meter intervals ave raging 0.7 g/t gold and 0.55 g/t gold respectively. The gold anomalies may represent the upper levels of deeper and as yet undiscovered silv er mineralization.

Wildcat holes QTA 188 and QTA 189, drilled 2 kilome ters further west from holes QTA 185-187 to test an omalous vein occurrences, did not intersect significant mineralization.

Sampling, Analysis and Security of Samples

Quaterra and Blackberry have drilled 192 holes on t he Nieves property. All but 10 holes completed by Q uaterra in 1999-2000 were core holes. Major Drillingof Mexico S.A. de C.V. was the drill contractor for drill programs completed duri ng 1999 to 2006 and B.D.W. International Drilling of Mexico S.A. de C.V. has been the drilling contractor since 2006.

Drill hole orientations are generally perpendicular to the strike of the overall structural trend of t he vein(s) targeted. HQ (63.5 mm) was the standard drill core diameter. NQ (47.6 mm) was used locally as an extension (a tail) where drill condi tions were difficult. Drill hole locations are surveyed using a RTK Trimble (model R8), double frequency GPS with

precision to 1 cm. Down-hole survey readings were r ecorded on average approximately every 50 or 100m d ependding on the length of the hole using an Eastman Single Shot instrument. Survey res ults have been corrected for magnetic declination (+9°).

All drilling is conducted under the supervision of Quaterra personnel. The compound containing the cor e logging and core storage facility is protected by a chain link fence with locked gate. T he individual storage rooms are locked toprevent ac cess to the core logging and core cutting areas. The onsite geology office is a separ ate building within the compound and is also kept l ocked. The main working office is located in the town of Nieves within a locked house compound and also serves as a field house for the geologists. Paper and digital maps, cross-sections and long sections are stored in the Nieves field house office.

Core boxes were collected from the drill site and b rought to the core storage facility on the Nieves P roperty for logging and sampling by the project or assistant geologists on a daily basis. T he drill core is washed and core recovery estimated . Rock types, alteration minerals, textural and structural features, veining, and mineralized z ones are documented. Sample intervals are measured, marked with permanent marker, and given a sample number and sample tag by the geologi sts. From this point, technicians core saw the core into halves where one half of each interval is placed with the sample tag into a sampl e bag and marked with the sample number. The other half is placed back into the core box in its original position and the core boxes are the n stacked on racks and stored in order and by hole number in their core storage facility. Where the veins are coherent they are sawed in half perpendicular to the “grain” to get a representati ve split. Samples are placed into individual plastic bags marked with a unique sample identification number and with a sample tag placed into the bag. Sample ID numbers and meterages are also written on the core trays.

Samples are then packaged into sealed sacks and tak en by Quaterra employees to ALS Chemex Laboratories in Guadalajara for preparation. No employees, officers, directors or associates of Quaterra or Blackberry JV are involved in the prepa ration of the samples.

Standard and blank samples are also included with t he primary core samples for analysis. Standards are inserted directly into the sample sequence with a frequency of ~ 1 in 50. Blanks are inserted directly into the sample sequence with a f requency of ~ 1 in 25. The final prepared samples are shipped to the ALS laboratory in Vancouver, Canada for analysis. All samples were analyzed using a 41 element ICP method (ME-ICP41), in addition to analyzing gold an d silver by standard fire assay (ME-GRA21). Lead an d zinc values over 10,000 ppm and silver values over 100 ppm were re-assayed by atomi c-absorption methods (ME-OG62). The Company is unaw are of any known drilling, sampling or recovery factors that could materially impact the accuracy and reliability of the results. The Company believes the sampling procedure is appropriate for the type of mineralization being assayed such that samples are representa tive and there is no sampling bias.

ALS Chemex is an ISO 9001:2008, ISO 17025:2005 and Standard Council of Canada accredited laboratory wi th preparation and analytical laboratories operating in over 16 countries. Sample s are sent to ALS Chemex in Guadalajara for prepara tion using their PREP-32 procedure. Upon receipt samples are dried, weighed and crushed . Two hundred and fifty grams of material is split and pulverized to at least 85% passing 75 microns. Reject material is retained at ALS Chem ex in Guadalajara.

Samples were analyzed using fire assay – gravimetri c finish method in addition to ICP. Silver was anal yzed with two methods including aqua regia digest and a combination of ICP-AES (Inductiv ely Coupled Plasma – Atomic Emission Spectroscopy) finish and fire assay and gravimetric finish. Gold was analyzed with fire ass ay and gravimetric finish. The rest of the elements were analyzed with aqua regia digestion and ICP-AES finish. In the aqua regia digest and IC P-AES finish, the samples are digested in aqua regi a in a graphite heating block. After cooling, the solution is diluted to 12.5 ml with de ionized water, mixed and analyzed by ICP-AES. The r esults are corrected for inter-element spectral interferences. In the fire assay and gravi metric finish, the samples are decomposed with fire assay fusion, during which the sample is fused with a mixture of lead oxide, sodium carbonat e, borax, silica and other reagents to produce a le ad button, which is cupelled to remove the lead. The remaining gold and silver bead is sep arated in dilute nitric acid, annealed and weighed as gold. Silver is determined by the difference in weights.

Internal quality assurance and quality control (QA/ QC) procedures such as the insertion of blanks and standards into the sample sequences were not utilized by Quaterra and Blackberry JV dur ing initial phases of exploration. Routine analysis of standard reference material (standards) began in 2007 with the insertion of a c ommercially prepared standard. Duplicate sampling b egan in 2008, and continued through the 2011 drill program. Duplicate samples were pack aged and shipped using the same security protocols as the primary drill core samples and submitted to Skyline Assayers & Laboratories (“Skyl ine”) in Tucson, Arizona. Skyline is ISO 17025 accr edited including analyses for Au and Ag by fire assay (including gravimetric methods), w hich is the method of analyses used for the submitted samples.

A review of the Nieves data in the October 16, 2012 M3 technical report concluded that the data quality is adequate at this stage of the project and can be used in 3D modelling for the purpose of resource estimation. The quality control review indicates that there were no major problems in the core shack such as sample mix ups or contamination. The slightly high failure rate of core duplicates is probably an indication of the nature of the ore that is characterized by narrow veinlets.

The failure rates of external standard (KM2653) are high for silver, but this is due to the different analytical method and not the poor quality of the data, which is suggested by the performance of the laboratory standards. Also, silver analyzed with the ME-ICP41 method is slightly biased high and silver analyzed with the ME-GRA21 method is slightly biased low, but these biases are not always consistent with the laboratory standard, suggesting that the problem is with the external standard. In the previous phases silver was analyzed with the same methods and a commercially available certified standard (CDN-SE-1) was used and performed well for silver. Recommendations for future programs include the use of an external standard with a similar certified value as the silver grades at Nieves that is certified for the same analytical method and has similar matrix.

The average gold value in phases at Nieves is 0.058 g/t including all data and 0.22 g/t including only data above the detection limit. The quality of the Au assay data is considered adequate to include Au in the resource calculation at this stage of the project, especially because the grade of Au is fairly low and it is not the main commodity at Nieves. Also, Au analyzed with ICP-OES and gravimetric method is comparable. Recommendations for future programs include using fire assay and instrument finish (AAS or ICP) for Au assays and that a certified standard with a low grade value, same analytical method and similar matrix is inserted and that the frequency of the quality control samples be increased to include one standard, one blank and one core duplicate with every twenty samples.

Metallurgical Testing

Preliminary metallurgical testwork on the composite sample from the Nieves property was completed in June 2010 by G & T Metallurgical Services Ltd. Approximately 100 kg of coarse crush material was composited from reject core material from selected intervals in 12 holes drilled through the La Quinta mineralization in 2009-2010. The sample was determined to contain ~ 79 g/t Ag (theoretical grade of 83 g/t Ag). Freibergite was the major silver phase present in the sample. Ore hardness tests indicated that the sample was moderately soft with a Bond work index of 10.8 kWh/tonne. Open circuit flotation tests showed that~ 86% of the Ag can be recovered into a final concentrate with a grade of ~ 2.3 kg/tonnes Ag. Rougher tests suggested that Ag recovery was relatively independent of primary grind size between 67 and 104µm K80. Additional testwork was recommended to investigate coarser primary grind sizes. Rougher tests also indicated that silver recovery could also be increased by using a collector such as EROPHINE 3418A which would increase the selectivity of Ag over pyrite. Open circuit cleaner tests suggest that regrinding the rougher concentrate to 20µm K80 had no significant benefit on silver metallurgy. However, increasing the pH of the cleaner circuit to 10 significantly improved the Ag grade in the final concentrate. For the purposes of the preliminary economic assessment, design parameters of 86% silver recovery with a final concentrate grade of 2,300 g/t were used.

Mineral Resource Estimate

Caracle Creek completed an updated NI43-101 independent mineral resource estimate for the Nieves project in June 2012. A summary of the resource estimate within the Concordia and San Gregorio vein systems using a reporting cut-off grade of 15 g/t Ag is shown below:

| Vein | Zone | Resource Class | Quantity Tonnes (t)1,2 | Grade3 Ag (g/t) | Grade4 Au (g/t) | Ag (oz) 5 | Au (oz)5 |
|---|---|---|---|---|---|---|---|
| Concordia | La Quinta | Indicated | 33,040,000 | 50.1 | 0.04 | 53,220,000 | 42,500 |
| Concordia | La Quinta | Inferred | 39,260,000 | 32.0 | 0.02 | 40.390,000 | 25,200 |
| San Gregorio | North | Inferred | 18,770,000 | 27.0 | 0.08 | 16,293,900 | 48,300 |

1 Reported at a cut-off grade of 15 g/t Ag. Mineral resources are not mineral reserves and do not have demonstrated economic viability.
2 Tonnes have been rounded to the nearest 10,000.
3 Ag grade has been rounded to one (1) significant digit.
4 Au grade has been rounded to two (2) significant digits.
5 Ounces have been rounded to nearest 100. One (1) troy ounce = 31.103 grams.

The mineral resource is based on drilling informati on as of June 22nd, 2012. The database includes col lars, assays, survey and lithology information from 8 drill holes from programs of pre vious operators between 1995 and 1996, 10 drill hol es drilled by Quaterra between 1999 and 2000, as well as 174 drill holes drilled by Qua terra and Blackberry between 2004 and 2012. The est imation used geostatistical block modeling methods constrained by a mineralised wiref rame. GEMCOM's GEMS resource modeling software V.6. 3 was used to generate the block model and perform the grade estimation. Grade s for Ag & Au were estimated using the inverse dist ance method of interpolation. The mineral resources were classified according to the CIM Standard Definition for Mineral Resources and M ineral Reserves (December 2005) guidelines and reported in accordance with the Cana dian Securities Administrators National Instrument 43-101.

The mineralized domains were constructed primarily from the Ag grade assay data. The La Quinta mineral ized domain was defined using 99 drill holes and 5072 samples. The Gregorio North mi neralized domain was defined using 25 drill holes a nd 1729 samples. The drill holes were drilled in a sectional pattern with a drill ho le spacing ranging from 20 - 100 meters, in the La Quinta area, and 20 - 175 meters in the Gregorio North area. The mineralized domain was pro jected 100 meters beyond the last drill hole. Due t o the potential for bulk open pit mining, a grade cut-off was not used when construct ing the mineralized domain. However, if the last as say in the interval was less than 0.1 g/t Au, then it was not included in the mineralized dom ain unless it had a significant Ag grade component of 10 g/t Ag. The estimation parameters set for the mineral resources were not a llowed to interpolate through un-sampled intervals. An Ag value of 0.1 g/t (Half Detection Limit) was assigned to the missing intervals.

The Qualified Person responsible for the updated Ni eves project resource estimate is Jason Baker, P. E ng., of Caracle Creek. Zsuzsanna Magyarosi Ph.D., also of Caracle Creek, is the Qual ified Person responsible for the QA/QC evaluation. Doris M. Fox M.Sc., P. Geo., also of Caracle Creek, is the Qualified Person responsible for the site visit and sampling procedures.

Preliminary Economic Assessment

M3 Engineering & Technology Corp. ("M3") of Tucson, Arizona used the Caracle Creek mineral resource es timate to complete a preliminary economic assessment ("PEA") for the Nieves project October 31, 2012. The PEA was amended and restated on January 7, 2014. The study concluded that the project has potential for develo pment as an open pit silver mine that would produce 55.5 million ounces of silver over 10-year mine life.

The PEA set out the following key project parameters:

- An open pit mine centered on the Concordia vein tha t contains a total of 35.4 million tonnes of mineab le material. The pit includes 28.3 million tonnes of higher grade material averag ing 65 g/t silver and 0.045 g/t gold (at a cutoff o f 30.5 g/t silver); and 7.1 million tonnes of lower grade material averaging 24 g/t (at a cutoff of 21.3 g/t silver). The open pit mine pl an was developed based on an indicated resource of 33.0 million tonnes at 50.1g/ t silver and an inferred resource of 39.3 million t onnes at 32.0 g/t silver, using a cutoff of 15 g/t..

- Recovery of 55.5 million ounces of silver and 41,00 0 ounces of gold over the 10-year mine life at an a verage mining rate of 3.5 million tonnes per year. Silver recoveries of 86% were based on testwork completed to date.

- Initial capital expenditure of US$231.6 million wit h a sustaining capital cost of $64.1 million. Capit al costs are considered accurate to +/- 35%.

- Average life-of-mine operating costs of $14.98 per ounce of payable silver.

- An after tax net present value (NPV) of $77.1 milli on at an 8% discount rate and a base case silver pr ice of $27 per ounce and a before tax NPV of $142.32 million. At a silver price of $3 2.40 the after tax NPV is $204 million. The project breaks even at a silver price of about $21.37 per ounce (about $15.25 after payback).

- An after tax internal rate of return (IRR) of 15.7% with a 4.4-year pay back and a before tax IRR of 2 1.9% with a 3.4-year pay back.

The mine plan for the Nieves project is an open pit that straddles the Concordia vein and includes thr ee pit phases. A 35.4 -million tonne mineralized zone would be mined at a rate of 10,000 tonnes per day resulting in a ten year mine life a nd at a 5.4:1 (waste to ore) strip ratio. The pit includes 28.3 million tonnes of higher grad e material averaging 65 g/t silver and 0.045 g/t go ld (at a cutoff of 30.5 g/t silver); and 7.1 million tonnes of lower grade material averaging 24 g/t silver (at a cutoff of 21.3 g/t silver). The S an Gregorio zone was not included in the mine plan but may become viable with additional dri lling.

The financial analysis is based on a silver price o f $27 per ounce and a gold price of $1,300 per ounc e, rounded numbers which are both less than the SEC-recommended three-year historical pric e through the end of August. The analysis includes deductions for all royalty payments and a contingency of 20%. No credits are assumed fo r lead or zinc. Sensitivities were run for the pric e of silver, operating cost and initial capital cost.

The Qualified Person for the preliminary economic a ssessment is Joshua Snider P.E. with M3 Engineering & Technology Corp., Tucson, Arizona. The Qualified Person for the mining portio n of the PEA is Jeffery Choquette P.E. of Butte, Mo ntana, and for metallurgy Thomas L. Drielick P.E. M3 Engineering & Technology Corp., Tucson, Arizona.

The PEA emphasizes that additional exploration and drilling could both expand the current pit and upgr ade the San Gregorio inferred resource which was not included in this study. The San Gregorio inferred resource includes 16.3 millio n ounces of silver and 48,300 ounces of gold using a cutoff of 15 grams. Vein systems to the north and south of the pit also have potential for additional resources.

Future Work Plans

No drilling was accomplished during 2013. Detailed cross sections have been completed to assist in opt imizing the location of additional drill holes, both within and adjacent to the defined reso urce and to the west around the new Orion vein disc overy. In addition to the Orion discovery, the presence of a possible buried intrusive further to the west is suggested by Landsat ima gery and government magnetic data.

A contract to purchase 318 hectares (785 acres) of surface rights west of the proposed pit has been fi nalized, with the last of four payments due in April 2014.

The Company continues to look for a buyer of all or part of its 50% interest in the Nieves project.

**Herbert Gold Project, Alaska**

Property Description and Acquisition

The Herbert Gold project is an early stage, partial ly drill-tested, high-grade, gold mineralized mesot hermal quartz vein system in the historic Juneau Gold Belt of southeast Alaska. The project c onsists of 91 unpatented lode claims located 32 km north of Juneau along the eastern shore of the Lynn Canal on Federal lands administer ed by the U.S. Forest Service. The area has a land use designation on current land use plans as semi-remote recreation with a minerals ove rlay. Forest lands within this designation are open to mineral exploration and development, and guidelines allow reasonable access in accordance with the provisions of an approved P lan of Operations. Exploration at the project has proceeded under approved Plan of Operat ions from the U.S. Forest Service. A City/Borough o f Juneau exploration permit has been granted effective through February 2013.

The Herbert Gold claim block consists of three clai m groups. A core group of 17 claims was acquired by Juneau Exploration and Development Inc. (JEDI) from Echo Bay Exploration I nc. in 1997. Quaterra and JEDI signed a mining leas e agreement in April 2007, with an effective date of November 1, 2007, at which time 6 7 additional claims were staked and an area of inte rest around the core claims agreed upon. A final set of 7 claims was added by Quaterra in February 2008 bringing the current total to 91 active claims. There is no distinction between the claims within the agreements and all cl aims lie within the proscribed area of interest. Th e lease includes a sliding scale NSR on production, up to five percent (5%) where the price of gold exceeds $601 per troy ounce, and a minimum annual advance production royalty of up to a maximum of $30,000 after the tenth anniv ersary of the effective date payable to JEDI.

On June 16, 2010 Quaterra optioned the Herbert Gold property to Grande Portage Resources (GPR). The op tion agreement granted the right to earn 65% in the Herbert Gold project if: a) GPR spent at least $750,000 before June 15, 2011 to ear n 51% b) GPR spent an additional $500,000 before June 15, 2012 to earn the full 65%. GPR has fulfilled both of these obligations and is fully vested at 65%. On October 24, 2011 GPR and Quaterra signed a Joint Venture Agreem ent outlining the collective responsibilities betwe en the JV participants. Funding is on a pro-rata basis, with standard dilution applying in the event either party declines to participate.

Expenditures to Date

Acquisition costs incurred to December 31, 2013 wer e $150,615 and exploration expenditures were $1,579 ,962 for a total of $1,730,577. Acquisition costs incurred to December 31, 2012 wer e $136,492 and exploration expenditures were $1,512 ,046 for a total of $1,648,538.

Location, Access and Infrastructure

The Herbert project area lies on the western flanks of the Coast Range Mountains. Terrain is generally rugged within the project area, with elevations extending from 40 m to 1200 m above sea level. Topographic relief ranges from moderate to rugged. Vegetation ranges from dense alder brush to bare rock. Herbert Glacier terminate s at the eastern edge of the claim block and the gl acier's rapid retreat in the past 30 years is responsible for recent exposure of uncommonly large areas of bare rock at low elevations.

Exploration field work is currently limited to summ er and fall months, but no seasonal restrictions ar e anticipated for future operations. Access to the project area is currently by helicopt er from Juneau but the main public paved highway (R oute 7) from Juneau passes 5.5 km west of the project area where it crosses the Herbe rt River. Topographically there is no obvious impediment for road access from the highway to the project area along a route parallel to the Herbert River.

Juneau is a regional mining center supporting activ e mining operations at Greens Creek and Kensington. As such it is well supplied with qualified support personnel for any future mining o peration at the project site. Other nearby communit ies including Haines and Skagway add to the potential employment base. The Alaska Marine Highway and commercial aviation are the primary fo rms of transportation among the three communities.

Electric power lines along Route 7 terminate just n orth of Dotson's Landing approximately 3 km south o f the highway/ Herbert River junction. Tidewater access is likely at Dotson's La nding approximately 10 km from the project, of whic h the first 4.5 km would be on public paved roads.

History

The Juneau area hosts multiple high-grade gold depo sits that were active from 1883 through to 1943 and so it is likely the Herbert Gold area was originally prospected during this time. Houston Oil and Minerals found gold mineralization in outc rops recently exposed by retreating ice and drilled the prospect in 1986. The program consi sted of 9 BQ diameter core holes totalling 502 mete rs. Echo Bay Mines drilled an additional 1,100 m in 10 holes in 1988. Historic da ta is a little vague as to whether there was some a dditional shallow "winkie" drilling also completed in 1988, with possibly as much as 230 m c ompleted in 12 holes. Although encouraging results were returned, for unknown reasons Echo Bay abandoned the project.

In 1997 as part of Echo Bay's divestiture of its Al askan properties, a group of three local prospector s (JEDI) successfully purchased the core claims of the Herbert Gold project. Quaterra review ed the property in 2006 and subsequently signed a M ining Lease with JEDI effective November 1, 2007. A field program in the summer of 2007, managed by the Hawley Resource Group (HRG) re sulted in the collection of 299 rock chip, soil, and stream silt samples and the initiation of property wide geologic mapping. In 2010 the property was optioned to GPR.

After acquiring an option in 2010, Grand Portage in itiated detailed geologic mapping and analysis of a erial photographs over the southern two-thirds of the most intensely mineralized part o f the Herbert Gold property. The work investigated three high angle east-west trending vein-faults identified as the Floyd, Deep Trench, a nd Main structures. The Deep Trench and Main struct ures were mapped over strike-lengths of about 2,100 meters and vertical distances of sev eral hundred meters. The work also identified attra ctive targets in subsidiary structures such as the Ridge vein and other vein-faults, tentatively named Goat Creek and North.

The 2010 field work also included a 16-hole explora tion drilling program totaling 2,600 meters. Initia l testing of the Main, Ridge, and Deep Trench Veins was conducted from 5 platforms. Hole 1 0C-1 intercepted 1.14 meters that averaged 17.1 g/t Au in the Main Vein and 6.17 g/t Au over a thickness of 0.86 meters in a newly disco vered vein. Drill hole 10D-2 intercepted a quartz-s ulfide vein of about 4 meters true thickness with an intercept of 6.55 g/t Au over 1.1 5 m. Other significant intercepts were reported in the Ridge Vein (.85 m averaging 6.85 g/t Au in hole 10A-4) and in the Deep Trench Vein (.52 meters averaging 9.4 g/t Au in hole 10B-1). The dri lling program tracked Herbert's Main Vein for about 750 meters and tested the vein at three general locations.

GPR drilled a total of 5,181 meters at the Herbert project in 30 holes during the 2011 field season. The program intersected high grade gold mineralization in 5 separate zones, four of which were new discoveries. The Deep Trench Vein was tested by 16 holes from the E, F, and G platforms. Hole 11E-2, drilled at an angle of minus 62 degrees, intersected the vein with a true width of 8.76 meters averaging 33.8 g/t gold at a downhole depth of 137.1 meters. The western most platform on Deep Trench vein, the F platform, also showed impressive values in drill hole 11F-3. At a depth of 40.0 meters, 11F-3 intercepted a brecciated quartz vein that assayed 11.53 g/t Au of gold over 3.52 meters. Significant values were seen in all of the holes testing the vein from the G platform. Trench samples taken from the vein near the E platform encountered gold values with screened assays up to 40.1g/t Au. The drilling results together with surface exposures extended mineralization in the Deep Trench Vein over a vertical distance of at least 400 meters and a strike length of almost 1000 meters. Mineralization remains open at depth.

Thirteen holes drilled in 2011 tested the Main and Ridge Vein systems. Hole 11I-4, drilled at an angle of -64 degrees to a total depth of 171.3 meters intersected the Main Vein with a true thickness of 0.95 meters averaging 73.9 g/t gold and 93.1 g/t silver at a downhole depth of 141.2 meters. This intercept occurs near the western limit of exploration on the Main Vein immediately beneath the major contact between the intrusive host and low-grade meta-sediments and volcanics. The mineralization appears to represent a new target type defined by bonanza grade mineralization produced by the sudden changes in geochemistry, and possibly pressure and temperature at the quartz diorite intrusive contact. Grande Portage completed its 2011 fieldwork by identifying several deep targets to be drilled in the 2012 season.

The first NI 43-101 Technical Report ever prepared for the Herbert Gold project was completed May 28, 2012 by Nicholas Van Wyck and William Burnett of Yukuskokon Professional Services, LLC (YPS). The report includes all exploration and drilling data compiled through the 2011 field season to describe the geology and mineralization of the project and outlines the sampling, assaying and analysis used for the preparation of the database.

Geology and Mineralization

Through 1989, the Juneau gold belt has produced approximately 6.7 million ounces of gold. This production represented nearly 75% of Alaska's total lode gold production until new mines at Fort Knox and Pogo in the Alaska interior reduced this percentage. Historic production from the Juneau mining district was mainly from mesothermal quartz veins and stringer lodes localized in greenschist to amphibolite-facies metasedimentary and intrusive rocks. As are typical of these types of deposits worldwide, mineralized veins in the Juneau district are known to extend significant distances along strike and down-dip.

Mineralization at the Herbert project consists of mesothermal quartz-carbonate-gold-base metal veining that is similar to other mines throughout the district. Gold-quartz veins are hosted in weakly foliated, NW trending quartz diorite caught between two NW-trending faults separating the quartz diorite from gneiss and tonalite to NE and phyllites and metagraywackes to the SW. The four principal veins from south to north and are the Floyd, Deep Trench, Main, and Goat veins. Minor veins include the North, Ridge and Lake. The principal veins strike N80E and dip steeply to the north, with a minor subsidiary NE orientation. On the surface, veins and their hydrothermally altered walls erode easily to form prominent linear zones with strike lengths of over 900 meters. The cumulative strike length of all mapped veins at present is over 3,700 m. Current drilling and exposures in creek bottoms indicate that the structural zones hosting the veins are as much as 20 meters wide, while the veins themselves have drill intercepts with corrected true thicknesses of at least 8 meters in places, although most are on the order of 1-2 meters thick. Some of the veins contain visible gold and exhibit local high grade gold values.

Exploration and Drilling Results

A total of 127 diamond drill holes and four trenches have investigated the Herbert Gold Property since drilling began on the project in August 2010. The 2012 drilling campaign was designed to upgrade the previously identified inferred resources to indicated resources and to test extensions of mineralization in the Main and Deep Trench veins as well as new targets in the Goat and Ridge veins.

Grande Portage initiated the 2012 drilling campaign with a two rig program in June. Spring Valley Drilling Inc. and Core One Enterprises LLC. completed 8,805meters of core drilling in 62 holes. The program in-filled the drill hole spacing of the Main and Deep Trench Veins to a nominal 25 meters and tested the open strike extents of both structures while completing a successful test of the Goat Creek Vein.

Seven holes were drilled from pad J on the Goat Creek structure in 2012. Hole 12J-3 intersected visible gold in a sheared quartz vein with a 2.05 meter intercept of 79.4 g/t gold which includes 0.8 meters of 192.5 g/t gold. Hole 12J-4 encountered an average of 12.66 g/t gold over 1.10 meters in the structure. The Goat Creek vein was discovered in 2011 by a single

wildcat hole collared on a linear feature which par alleled the other well-mineralized east-west veins. The feature can be traced on surface for nearly 1,000 meters.

The results from the 2012 infill drilling campaign were used for the updated NI43-101-compliant resour ce estimate by D.R. Webb of DRW Geological Consultants Ltd. (see "Mineral Resource Estimate" section). When compared to the April 2012 resource estimate, the recent campaign resulted in the conversion of 52.3% of the tonnes and 74.4% of the ounces from the inferred t o indicated resource category. At the same time the grade increased by 42.2% compared to last April's resource estimate. At a 3.0 g/t cut off, 56.0% of the tonnes and 81.7% of the ounces were converted to the indicated resource cat egory, with an increase in grade of 46.2% . The pro gram also delineated a higher grade shoot within the Deep Trench vein which contains th e highest grade resource discovered to date of 407, 100 tonnes averaging 8.12 g/t Au (at a 2 g/t Au cut-off), and 232,300 tonnes averaging 12. 42 g/t Au (at a 3 g/t Au cut-off). This high-grade mineralization is open to the east and at depth.

Sampling, Analysis and Security of Samples

All core samples from the Herbert Gold drilling pro gram are removed via helicopter from the drill pad to a secure hanger area and from there by truck to the project core logging and sample pre p facility in Juneau. This facility consists of two lockable 40-foot shipping containers situated behind a residence in a graded parking are a. The surrounding area is residential with multifa mily housing units and business in the immediate area. The area is not fenced and is easil y accessible to the public. The containers are owne d by one of the underlying claim owners and so steps have been taken to maintain a clear cu stody of core samples by the operator including sto rage of the core in a locked container.

Core is first logged and selected intervals marked for sampling. A rock saw outside the core facility is used to saw the core in half. One half is bagged and stored prior to shipping to the assay la b, while the remainder of the core is archived on t he core storage site. Samples are locked before being shipped to the assay lab in Fairbanks by air shipment. The samples are shipped to the lab quickly and are not stockpiled on site for any length of time. Future program will include security seals on sample bags and a designated sto rage area for split samples prior to shipping.

Core samples from 2010 and 2011 were air freighted to the ALS facilities in Fairbanks, AK for sample p reparation. Incompetent, friable, clay-rich or crumbly samples were bagged in plastic bags and then placed in the standard canvas bags s o there would be no possible loss of free gold in the cloth. Core samples were weighed, coarse crushed, split and pulverized. Pulps were th en shipped to ALS in Reno, NV for analyses. For both 2010 and 2011, base metals and t race elements were analysed by ICP - AES (ALS prep code: ME-ICP61). This method uses a four acid dissolution method and is primaril y designed as an exploration geochemistry analytica l package. Initially, 2010 gold assays were by conventional fire assay techniques (ALS pre p code: Au-ICP21), consisting of fire assay of a 30 g sample of the pulp with the pellet then dissolved in acid and "finished" by AES. This analytical method is typically used for exploration projects. Later in the 2010 season, 34 samples with anomalous gold values were check assay ed using the metallic screen method (ALS prep code: Au-SCR21). In 2011 metallic screen assays were used for all submitted samples in addition to conventional fire assays.

There is no relationship between the assay lab (ALS ) and either GPR or Quaterra. ALS Minerals laborato ries are registered or are pending registration to ISO 9001:2008, and a number of thei r analytical facilities have received ISO 17025 acc reditations for specific laboratory procedures.

After the completion of two seasons of exploration on the project, deficiencies were identified in the May 28, 2012 technical report concerning methods used for quality control and qua lity assurance. There were no external standards be ing used nor was there a program of duplicate analyses. Although analytical blanks were submitted into the sample stream, the source of the blank material was problematical. The authors of the technical report do consider however , that the data from the 2010-2011 field season is still valid based largely on the good agreement between the original data and the later c heck assays. Recommendations for correcting deficie ncies in the adequacy of sample preparation, security, and analytical procedures were implemented prior to commencement of the 2012 drilling program.

Metallurgical Testing

Metallurgical testing on mineralized material from the Herbert Gold project confirms that the gold in this system returns recoveries up to 91 % Au and 78% Ag using a combination of gravity conc entration and cyanide leach of the gravity tailings . The ores also contain variable percentages of sulfides such as arsenopyrite, galena and sphalerite, and sodium cyanide consumption was high.

The U.S. Bureau of Mines collected a 240-pound meta llurgical sample of gold mineralized vein material from the project for analysis and beneficiation tests in 1988. A gravity separation test recovered 88.8 % of the gold and 80.7 % of the silver. In

2010 a sample prepared from cannibalized drill core was tested for "Bond Ball Grindability" and gold r ecoveries. The results cite a calculated value of 15.7 kw-hr/tonne for work index (WI) and c ombined gold and silver recoveries of 91 and 78 % r espectively using gravity concentration followed by cyanidization of the conc entrates and tails (G&T Metallurgical Services, Ltd ., 2011). The report recommends further metallurgical testing to understand the lar ge consumption of sodium cyanide in the process. Th ough the metallurgical study consisted of representative material from core, the material collected was uniformly from relatively low-grade m aterial recovered during the 2010 drilling campaign and did not include the high-grad e with visible gold drilled during the 2011 season. As testing of the project continues, increased knowledge will allow a better considerati on of the range and size of the sampling program re quired for additional metallurgical sampling. A bulk sample between 10 and 100 tonnes w ill permit a far more comprehensive mill design and a gravity only recovery test by Falcon (or equivalent) would provide better paramet ers for designing of the mill.

The regional characteristics of ores from past mini ng operations in the Juneau district are quite cons istent, containing a very high percentage of free milling gold with the remainder of the gold reporting with the base metal sulphides. It is rea sonable to expect, based on these regional characteristics and the character of the core sampl es obtained to date, that mineralized material from the Herbert Gold project will behave similarly.

Mineral Resource Estimate

GPR and Quaterra released an updated NI 43-101 comp laint resource estimate for the Herbert Gold Projec t on February 28, 2013. The updated estimate by D.R. Webb P. Geol. of DRW Geolo gical Consultants Ltd. used the digital database de rived from a total of 127 diamond drill holes and four trenches that includes the res ults from the 2012 infill drilling campaign. Based on operating cost estimates for a 250 tonne per day mining operation, the May 28, 2012 YPS Herb ert Gold Technical Report selected a 2.0 g/t as app ropriate for base case cut-off. At a cut-off of 2 g/t Au, the February 28, 2013 estimate contains an indicated resource of 821,100 tonnes g rading 6.91 grams per tonne gold (g/t) containing 182,400 ounces of gold in the Deep Trenc h and Main veins. At the same 2 g/t Au cut-off, the Deep Trench and five veins that have had limited drill testing contain an inferred resou rce of 51,600 tonnes grading 7.73 g/t gold for a to tal of 12,800 ounces of gold. The mineralization is open at depth and along strike.

A summary of the February 28, 2012 resource estimat e is shown below:

Herbert Gold Project
Mineral Resource Estimate (February 2013)

| Cutoff Grade (g/t Au) | Tonnes | Av. Grade (g/t Au) | Au (Ounces) |
|---|---|---|---|
| Total Indicated Gold Resources | | | |
| 2.0 | 821,100 | 6.91 | 182,400 |
| 2.5 | 637,900 | 8.25 | 169,200 |
| 3.0 | 532,400 | 9.34 | 159,800 |
| Total Inferred Gold Resources | | | |
| 2.0 | 51,600 | 7.73 | 12,800 |
| 2.5 | 42,100 | 8.99 | 12,200 |
| 3.0 | 38,600 | 9.55 | 11,900 |

The resources are classified according to their pro ximity to the sample locations and are reported, as required by NI 43-101, according to the CIM Definition Standards for Mineral Resources and Mineral Reserves. Indicated resources comprise bloc ks that are situated within 60 meters of assays derived from drill holes or trench es. Resource blocks located between 60 and 200 mete rs of assays are considered inferred. Metallic or screened assays were used in all instan ces where they were available (921 samples). All ot her assays are standard one assay ton results reported using ICP finish or where over limit (>10 g/t) are reported using gravimetric finish.

MapInfo's 3D solid generation routine was used to c onstruct three dimensional models from a series of cross sections for each of eight different zones where correlations in apparent gold assays, alteration zones, and multi-element data a ppear down-dip on section and between sections. Some areas of the Main vein provided mult iple options for correlations that were permissive by geology and sample geochemistry. The Deep Trench vein was remarkable in the simplicity and consistency of a very planar orientation of the correlations.

An Inverse Distance Squared (ID2) method using a bl ock model approximately 8m x 1.5m x 6m was applied to the Main and Deep Trench veins. Smaller solids (such as the Deep Trench Vein Hanging Wall) were modeled using smaller block siz es down to 2m x 2m x 2m. Blocks required a minimum of three and a maximum of 12 com posites within a 180m x 180m x 180m search ellipsoi d, oriented parallel to the vein. The raw and composited assay data for the veins dis play a mixture of three populations on the lognorma l probability plots. These can be modeled smoothly without any obvious outliers that can over-influence the estimation and to account fo r the nugget effect. Statistical studies showed that capping or averaging was not indicated. The resource remains open in multiple directions along these defined veins.

D.R. Webb P. Geol. is the Qualified Person responsi ble for the reserve and resource calculations while D.G. Dupre P. Geo. is the Qualified Person responsible for all other aspects of the Tec hnical Report which is being prepared and will be f iled within 45 days of the February 28, 2013 release. Quality-control data, generated durin g the various drill programs conducted at the Herbe rt Property, are being independently verified by Mr. Dupre and Dr. Webb as part of the project review.

Future Work Plans

Although no drilling was performed during 2013 due to a lack of funds, all wooden drilling platforms w ere dismantled and flown to an offsite location as specified in the operating permit and the third year of baseline environmental water studies was completed.

The objective of future drilling will be to extend the known mineralization down dip and along strike. Preliminary resource estimates are strongly influenced by high-grade shoots along the veins and there is no geological evidence that the grades of the shoots could not have continuity to great depths. The resource remains op en in multiple directions along these defined veins in addition to there being several highly prospective structures spread over the property. Wi th 4 (or possibly five) high grade mineral shoots n ow identified in 3 of 6 vein systems on the property and only 10% of the known property yet investigated by drilling, the Herbert Gold project retains attractive untested potential for significant resource growth.

Approval of the 2014 Operating Plan by the US Fores t Service was received on February 27, 2014. This w ill permit drilling to be carried out from June 16 to October 31, 2014, if the JV elects to do so. The company is currently in the process o f monetizing non-core assets, including its 35% interest in the Herbert project. In the eve nt that Grande Portage decides to drill before Quat erra has monetized its interest, the Company will be subject to dilution if it elects not to participate.

**Uranium Claims, USA**

During 2012 and 2013, the Company aggressively mark eted the Company's uranium assets. One bid was received and on March 14, 2014, the Company closed a transaction to sell its uranium pr operties and assets located in the states of Arizon a, Utah and Wyoming for gross proceeds of $500,000 after regulatory approval. The transact ion provides working capital and will free-up time and resources for the Company to focus on its Yerington-district copper properties.

Acquisition and Staking of Uranium Claims

Quaterra commenced uranium exploration in Arizona i n June 2005 with the acquisition of 99 unpatented l ode mining claims from North Exploration LLC ("North") that cover several uraniu m breccia pipe targets in the Arizona Strip distric t. Under the terms of the North agreement, the Company acquired a 100% interest in all of the North claims by making staged payments o ver a five-year period totaling US$500,000 and issuing 600,000 common shares. The N orth Properties are subject to a 2% production roya lty on each Property, 1% of which may be purchased by Quaterra for US$1 million. The North acquisition also included other properties in Utah and Wyoming that are prospective for both uranium and vanadium.

In mid-2006, Quaterra signed a letter agreement wit h Nu Star Exploration LLC (Nustar) to lease 18 Clai ms covering 4 additional breccia pipe targets in the district. The terms of the Nustar le ase included an upfront payment of US$20,000, a fir st anniversary payment of US$30,000, a second anniversary payment of US$40,000 and a final anniversary payment of US$100,000. The final payme nt was renegotiated and reduced to $50,000 payable in two payments of $25,000. The first of the two payments is deferred until such ti me when the withdrawal by the Department of the Interior be lifted and exploratio n and mining activities be allowed to continue. The last of the two payments is due on the first anniversary of the lifting of the withdrawal. The Nustar Claims are subject to a 4% Yellowcake r oyalty, 75% of which the Company can buy back for US$500,000 per Claim group (thereby re ducing the royalty from 4% to 1%).

Quaterra staked an additional 550 mining Claims on the Arizona Strip in 2006 and another 1,450 claims were perfected in early 2007 to cover more than 200 high and moderate priority anomalies identified by an airborne VTEM geophysical survey.

On July 20, 2009 a decision by the US Department of the Interior ("DOI") segregated 1 million acres of federal lands in the Arizona Strip for two years pending a review for a possible withdrawa l of the district from mineral entry. On January 9, 2012, the DOI announced a Public Land Order to withdraw approximately one million ac res of Federal land for a twenty year period. The s tated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to valid e xisting rights and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with valid existing rights.

Quaterra prioritized and selectively reduced the Co mpany's mineral properties in response to the segre gation and subsequent withdrawal order. The optimized land position consists of 516 unpatented claims that control 140 VTEM anomalies. The properties cover Quaterra's best breccia pipe targets with a maintenance cost that c an be supported while the withdrawal is contested i n Federal District Court. The withdrawal affects all but 8 of Quaterra's unpatented claims o n federal lands in the district but does not affect future exploration or development on the Company's 1,320 acres of State leases in Arizona.

In early 2010, Arizona state Mineral Exploration Pe rmits (MEPs) totaling approximately 3,200 acres wer e acquired through an option agreement with Eagle Hill Exploration, Eagle Hill A rizona Uranium LLC, and Snowden Resources Corp. Add itional MEPs were acquired by the Company in 2011 and some were abandoned in 2012 and 2013 making a current total of 1,320 acres of Arizona state land now under lease by Quaterra. When combined with 16.4 square miles c overed by 516 unpatented federal claims, the Compan y's land position covers approximately 18.5 square miles in the heart of the Arizona Strip uranium district. The properties con sist of many individual and scattered claim blocks that have been selectively staked over targets with some surface expression of a possible collapse structure, with favorable VTEM geophysical signatures and within areas of kno wn mineralized occurrences.

Expenditures to Date

Acquisition costs incurred to December 31, 2013 wer e $5,073,585 and exploration expenditures were $8,0 15,529 for a total of $13,089,114. Acquisition costs incurred to December 31, 2012 were $4,962,589 and exploration expenditures were $7,8 67,075 for a total of $12,829,664.

During the year ended December 31, 2013, the Compan y impaired and abandoned these uranium properties d ue to its inability to carry on exploration activities and prolonged legal processes resulting in impairment charge of $12,589,114. Location, Access and Infrastructure

Quaterra's Arizona Uranium property is located in t he northern Arizona Strip uranium district in Cocon ino and Mohave Counties. The property occupies the southwest corner of the Color ado Plateau physiographic province in northwestern Arizona just south of the Utah state line. It is bounded to the west by the Grand Wash Cliffs and to the east by the Echo Cliffs. The area is characterized by a broad and featureless expanse of range land that becomes deeply incised by canyons of four major drainages.

Access to the property is provided by maintained co unty roads, mine access roads and a network of BLM recognized dirt roads and jeep trails used by ranchers and prospectors as well as State a nd Federal authorities for land management. Nearly all of the surface and mineral rights with the exception of the Arizona state lands are F ederal and managed by the Bureau of Land Management with a field office in St. George, Utah.

History

Uranium mineralization was first discovered on the Arizona strip in a mineralized breccia pipe in 1947 . The uranium occurred in association with copper mineralization at the Orphan mine two m iles west of the visitor's center on the south rim of the Grand Canyon. The first uranium ore was shipped by the Golden Crown Mining Company in 1956 to a buying station in Tuba City. Before cl osing in 1969, the Orphan operation produced a reported total of 4.4 million lbs of uranium in material averaging 0.42% U3O8 and 6.7 million lbs of copper. (Baillieu, T.A. and Zollinger, R.C. (1980) NURE Grand Canyon Quadrangle, Arizona PGJ-020, 41p.).

The relationship of uranium to copper mineralizatio n initiated an investigation of several small coppe r deposits in the region. Uranium was identified in the Hack Canyon copper mine on the no rthern Arizona strip in the 1950s but it was not un til 1974 when Western Nuclear discovered uranium ore bodies in the Hack 1 and Hac k 2 breccia pipes that industry began to focus atte ntion on the emerging district. Energy Fuels Nuclear Inc. (EFN) acquired the Hack Canyon o re bodies in 1980 and initiated an intense campaign of land acquisition and exploration that over the next ten years discovered seven ore b odies. With the entrance of Pathfinder Mines and Un ion Pacific Resources, at least three additional mineralized breccia pipes were

added to the district. Several more were in earlier stages of discovery when in the early 1990s the pr ice of uranium dropped below the cost of production.

The EFN breccia pipe uranium mines were some of las t hard rock uranium producers in the US prior to th e price decline of the 1990s. Since 1980, the Arizona Strip has produced in excess of 2 0 million pounds of uranium, averaging 0.65% U3O8 f rom eight breccia pipes. Of these, Hack Canyon I, II, and III, Pigeon and Hermit are m ined out and have been reclaimed, Kanab North is un der reclamation Arizona 1 (owned by Energy Fuels Inc.) resumed production in January 2010 and Pinenut (Euergy Fuels) returned to produc tion in June, 2013.

Geology and Mineralization

The canyon walls of northern Arizona expose numerou s breccia pipes that are characteristic of the coll apse structures that host uranium mineralization in the Arizona strip. The collapse o f cavern roofs in the Mississippian Redwall Limesto ne forms a pipe of breccia through the subsequent collapse of overlying sediments through mechanical and chemical processes to form a vertica l column of breccia. Breccia pipes in the region average 200 to 400 feet in width and can extend upward over 3,000 feet from the Redwall Lim estone to the upper Triassic sequence.

Many northern Arizona Breccia pipes exhibit several common morphological features that are used to ide ntify the structures at the surface and to position drill holes at depth. The cylindric al area of vertically displaced breccia in the cent er of the pipe is generally referred to as the "pipe throat." The amount of vertical displacement in the throat ranges from 50 to several hundred fee t and often decreases up section. The internal geometry of the throat can be complicated by the later formation of "pipe in pipe" structures . These internal features are the result of late stage (often post-mineral) collapse due to con tinued dissolution of carbonates in the lower reach es of the pipe throat. They may result in the dispersal and elimination of economic accumulat ions of uranium mineralization in the pipe.

The throat of a breccia pipe is seldom visible at t he surface when not exposed in canyon walls. Where covered by the Triassic Moenkopi siltstone or recent alluvium, the only evidence of a pipe structure may be a large circular structure of gently inward dipping beds or even more subtle circular anomalies formed by ring fractures and vegetation. These features are caused by the di ssolution of evaporites in the Permian Toroweap and Kaibab Formations (PKfm) along the mar gins of the throat during the formation of the pipe . As the evaporites are removed, a pronounced structural depression or "collapse cone" develops in the overlying strata above the Coconin o sandstone. Many of the collapse cones are characterized by a thick section of Moenk opi siltstone that fills the cone near the upper Ka ibab horizon. Although breccia pipes often have some structural symmetry at different le vels, the throat of a pipe is not always in the cen ter of a collapse cone and circular depressions are not always related to pipes.

Uranium mineralization in breccia pipes of the nort hern district occurs predominantly within the pipe throat and below the upper Hermit contact. Mineralization is also present in ring fra ctures along the margins of the throat, and in the underlying Supai Group, but significant accumulations at this level is less common on the n orth rim than in the southern district. Economic co ncentrations of mineralization often occur over a vertical distance of more than 600 fee t in the pipe throat. Scattered mineralization can extend well below the upper contact of the Esplanade Sandstone.

Uranium occurs primarily as pitchblende in voids be tween sand grains and replacing rock fragments of a reduced sandstone dominant breccia derived from the Coconino Sandstone. Calcite and gy psum are common cementing minerals. Associated trac e elements include copper, arsenic, nickel, lead, zinc and silver. The mineral ized breccia often contains abundant bitumen that i s considered an important reducing agent for the geochemical system. Uranium is generally th ought to have been transported to the pipe by oxidi zing ground waters in the Coconino Sandstone and deposited in a "trap" of porous sands tone breccia within the non porous pipe walls of He rmit siltstone and above a relatively tight base of siltstone dominant breccia. Finely di sseminated pyrite is common in the mineralized zone and may contribute to the reducing environment necessary for the deposition of uranium . Immediately above the mineralization, pyrite beco mes massive and forms a "cap" of pyrite after marcasite that can exceed 50 feet in thickness.

The USGS Open File Report (OFR-89-550) shows the ma pped locations of 1,296 pipes in northern Arizona. More than 90% of mapped pipes are shown within the deeper canyons of the region w here they are exposed by erosion of the younger str ata. Because of their scenic value, these canyons have been withdrawn from exploration and mining. However, the same density of pipes is p robable at depth in the surrounding district where the number of known pipes decreases dramatically below the cover of successive layers o f younger sediments until fewer than 2 pipes are evident over a surface area of 500 squa re miles in the upper Triassic sequence. The upper level of stoping by collapse varies and many pipes may occur at depth within the district a nd remain hidden with no surface evidence of a pipe throat. If these structures penetrate the Coconino Sandstone, an ore body may exist with no pipe feature at the surface.

Hidden or "blind" pipes may be the most numerous ty pes of mineralized structures. Until the discovery of A-1, the Hack 2 mine was the only blind pipe ever discovered in the district. Hack 2 was also the largest deposit ever mined in the dist rict with approximately 7 million pounds of U3O8 produced. The number of pipes identified to date may represent only a small fraction of the nu mber of mineralized hidden pipes that lie waiting to be discovered at depth.

Recent Exploration and Drilling Results

The discovery of new deposits in a mature district requires a determined and innovative approach combi ned with the latest exploration technology. Quaterra initiated uranium exploration on the Arizona Strip in 2006 with methods based upo n past experience of Energy Fuels Nuclear. Geologic mapping, aerial photography and s atellite imagery have been and continue to be used extensively to identify breccia pipe targets. When a target was located, surface time-do main electromagnetic geophysical surveys had signif icant success in defining areas of thickened (conductive) siltstone within the surface structure. Shallow drill holes are used define a c ollapse cone and to target deep holes to test for mineralization in the pipe throat. Most of the obvious targets identified by these methods ha ve been located and drill tested by companies exploring the northern district in the 19 80s. However, extensive areas remained unexplored b ecause of the time and expense required by the surface geophysical surveys.

Since commencing on the Arizona Strip, Quaterra has drilled 100,162 feet in 104 shallow and 41 deep ho les that investigated 26 targets. The program had limited success until Quaterra contract ed Geotech Ltd. to conduct the first extensive test of an airborne time-domain electromagnetic system (VTEM) in the district in ea rly 2007. The VTEM system identified most of the kn own breccia pipes and more than 200 moderate to high priority targets on the Compan y's property with similar geophysical signatures bu t with little or no outcropping evidence of a collapse feature. The similarities to known structures and the sheer number of targets s uggested that many of the anomalies could be bind pipes.

The first VTEM target tested resulted in the discov ery of the first new mineralized breccia pipe found on the Arizona Strip in 18 years. Discovery Hole A-01-31 intercepted a thickness of 5 7 feet averaging 0.33% U3O8 at a depth of 1,034 fee t. The intercept includes a higher grade interval of 28 feet averaging 0.58% U3O8. The drill-hole data indicate that the A-1 structure is a hidden breccia pipe. Upward collapse of the A-1 pipe stopped more than 400 feet below th e surface.

Quaterra followed up on the discovery of the A-1 mi neralized pipe with a drilling program in 2008 dedi cated to testing several more of the many airborne geophysical anomalies on Quaterra's properties. The first hole to test the second geophy sical anomaly identified a new breccia pipe with high-grade uranium mineralization at A-20 . Discovery Hole A-20-01 intercepted a thickness of 34.5 feet averaging 0.37% U3O8 at a depth of 1,442 feet, including a high-grade zone of 6.5 feet averaging 0.63% U3O8 at a depth of 1,44 3 feet. The hole also intercepted a deeper zone of 13.0 feet averaging 0.46% at a depth of 1,567 feet that includes a higher grade interval of 10.0 feet averaging 0.58% .

The relative size of the A-20 pipe cannot yet be de termined, but it may be comparable to the larger br eccia pipes in the district. Only three holes have been completed in the structure, one exited the pipe above the favorable mineralized horizon and two have penetrated pipe breccia.

Since commencing the drilling program to target VTE M anomalies Quaterra has achieved a 70% success rat io in its exploration results. Near surface structures were identified in all but three of seven additional VTEM targets tested during the year.

The A-18 target, located midway between and about h alf a mile from the Company's mineralized Ollie and A20 pipes, is in a suitable position for a single development to access all three target s. To date, five deep and two shallow holes have be en completed that define a 40-foot-deep structural depression at the upper Fossil Mountain horizon. The deep holes have encountered up to eigh t feet of altered Hermit shale and a strongly altered section of Coconino sandstone that are indicative of close proximity to a pipe throat.

Drilling at the A51 target, located 1.5 miles west of the A1 discovery provided similar encouragement. Three shallow holes and four deep holes defined a 60-foot-deep structure at the upper Fossil Mountain horizon and more than 20 feet of a lteration in the Hermit shale. A gamma log of one deep hole showed a radiometric anomaly o ver a thickness of 15 feet in the Toroweap Formatio n. The holes are believed to have encountered the outer margins of a breccia pipe structure.

While waiting to complete a down-hole survey, one r ig was moved to the Ollie prospect to re-enter and probe an old hole drilled by Energy Fuels Nuclear in 1990. The probe identified an inte rcept in hole JH2618-04 of 52.5 feet averaging 0.24 % eU3O8 at a depth of 1,342.5 feet, including 27.0 feet averaging 0.36% eU3O8 at a dept h of 1,359.5 feet. A down-hole TEM survey (using te chnology that was nonexistent during the EFN program) identified a significant anomaly to the south of the

drilled area which suggests that a large section of the Ollie pipe may remain untested. The down-hole TEM proved valuable in locating the pyrite cap and providing information to target additional drill holes.

The A-21 VTEM target may also be a pipe, but deep drilling has failed to encounter the throat below the upper Coconino horizon. Three shallow and two deep holes have defined approximately 30 feet of structural closure in the Kaibab Formation and up to five feet of altered Hermit Shale below the lower Coconino contact indicating the proximity of a pipe structure. Additional shallow drilling will be required to target the pipe throat at depth.

Sampling, Analysis and Security of Samples

The Company uses the industry standard gamma logging method for grade determinations of uranium mineralization in drill holes. The process requires systematic calibration of the logging tools for precision and accuracy. Grades are reported as equivalent "U3O8" based on an assumed direct correlation between gamma-ray intensity, as measured by the gamma logging tools, and uranium content. The techniques for gamma log interpretation has been found to represent in-situ grades for uranium mineralization in the district as established by Energy Fuels Nuclear Inc. during their exploration and mining operations conducted on the Arizona Strip.

Down hole logging for the drill holes is contracted to Strata Data, Casper, Wyoming and Century Geophysical Corp. with verification by Geophysical Logging Service of Prescott, Arizona. The down-hole gamma logging tools are routinely calibrated by probing standardized test pits in Grand Junction, Colorado. Mr. Ken Sweet, Geophysical Consultant, of Denver Colorado provides QA/QC and final interpretation of the process.

Geophysical Logging Service uses a borehole NaI detector manufactured by Mt. Sopris in Golden, Colorado for initial grade calculations. It is of the type 2PGA1000 which is a standard for uranium logging. It uses a large crystal, 22.22 mm in diameter and 76.2 mm long. As a back up an HLP-2375 tool is used, also manufactured by Mt. Sopris. The HLP tool is a smaller diameter and can be used small drill holes.

The tools are calibrated in Grand Junction Colorado, nominally every 3-6 months. When ore grade mineralization is encountered the tool will be calibrated more often. In general, variation with this tool is insignificant within a year and requiring less than a 1% calibration change. There are 4 calibration pits in Grand Junction; 0.2 31%, 0.452%, 1.22%, and 2.63% U3O8. The calibration pits are constructed of natural uranium ore. Corrections are made for hole diameter, the type of drilling pipe, and fluid in the hole. Because the grades and thicknesses of the mineralized section are determined by down hole logging tools, the Company uses rotary drilling for exploration on the project. Drill cuttings from the program are often limited to the upper 400 feet of the hole. Circulation of the samples to the surface is often lost in the deeper evaporite dominant sections. Samples of the cuttings are collected in plastic boxes and archived in locked storage facilities.

When mineralization is intersected, spot core is collected when possible to compare to the interpreted gamma response. In some cases corrections need to be made for disequilibrium as established by closed-can analysis or direct neutron activation that compares the chemical values of core vs. the interpreted gamma grades. The gamma response has the advantage of sampling a large volume, on the order of 60 cm. Data is sampled at 0.5 foot or closer spacing. All core from the program is placed in boxes marked for depths, logged by the Company geologist and kept in the Company's storage facilities in Kanab, Utah.

For hole deviation, a Mt. Sopris 2DVA-1000 borehole deviation probe is used. It consists of a 3 axis flux gate magnetometer and a 3 axis accelerometer. The tool is calibrated on the surface using a "Jig" to hold it in a known orientation. The data is recorded continually along the hole.

Induction logs are used in conjunction with the gamma probe to provide additional lithologic information. Correlation of the interpreted lithologies between drill holes in a target area can reveal structural deformation related to a possible breccia pipe.

Mineral Resources

There are no resources or reserves on the Company's Arizona Strip properties that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

Future Work Plans

On January 9, 2012, the U.S. Department of the Interior ("DOI") announced a Public Land Order to withdraw approximately one million acres of Federal land for a twenty year period. The stated effect of the order is to withdraw the acreage from new

mining claims and sites under the 1872 Mining Law, subject to valid existing rights and does not prohi bit previously approved uranium mining, or development of new projects that could b e approved on claims and sites with valid existing rights. The Company's A-1, A-20, and Ollie deposits have mineralization exposed in drill holes that may qualify the underlying claims as hav ing valid existing rights, The withdrawal order affects Quaterra's unpatented clai ms on Federal lands but does not affect future expl oration or development on the Company's 1,320 acres of State leases within the district.

On April 18, 2012, Quaterra, together with co-Plain tiff the Board of Supervisors, Mohave County, Arizo na, (Arizona Coalition) filed a lawsuit in the United States District Court for the State of Arizona naming as Defendants the United S tates Department of the Interior and the Bureau of Land Management.

The basis of the lawsuit is that the United States Government, through the Secretary of the Interior a nd the Bureau of Land Management, did not adhere to mandated statutory procedures when it issued a decision to close more than one million a cres of Federal land to all mining in Northern Arizona. Specifically, the suit alleges th at the facts and science demonstrated that mining w ould not harm the Grand Canyon watershed and that the withdrawal of Federal lands regardless of this evidence was arbitrary and capri cious; the decision arbitrarily withdraws over one million acres to address subjective sensib ilities which enjoy no legal protection; the Secret ary did not comply with the procedural requirements of the National Environmental Policy A ct; and, the Secretary did not address scientific c ontroversies and failed to coordinate with Local Governments in making his decision.

The remedy sought is a judicial declaration that th e withdrawal Order is unlawful and setting it aside together with issuance of a permanent injunction enjoining the Defendants from implementi ng any aspects of the Withdrawal. A decision findin g that the Secretary failed to follow the criteria and procedures for a withdrawal and se tting the withdrawal aside would restore the public lands to the status quo ante and allow Quaterra to proceed to develop the mineral deposits that it has lawfully claimed and worked.

Pursuant to an order of the United States District Court for the State of Arizona dated July 19, 2012, the case filed by Quaterra Alaska against Secretary Salazar was assigned to be heard by Judge Campbell of this Court. Similar cases filed by Gre gory Yount, National Mining Association and Northwest Mining Association agains t Secretary Salazar have also been assigned to Judg e Campbell. In August, the cases were consolidated for trial. The DOI filed a motion to dismiss the Plaintiff's claim in September and the motion was heard in October. On January 8, 2013, the court denied the government's effort to dismiss Quaterra, except for the NEPA cla ims and also denied the government's motion to dismiss the Arizona Coalition on the NEPA claims. The district court held that the Coalition had standing to pursue its NEPA claims against BLM.

Since the commencement of the withdrawal process, t he Company has not expended significant amounts on the Arizona uranium claims pending the court decision and has suspended plans to continue to develop uranium claims on Federal la nd while the issues are resolved politically or judicially.

The uranium in this district represents significant potential domestic supply of energy and many jobs at a time when both are critical to the needs of the U.S.

**Other Properties**

The Company's other properties, listed by commodity, include:

Copper +/- gold: Yerington District (Wassuk), Reveille, Goldfield East and Poker Brown in Nevada; SW Tintic in Utah.

Gold +/- silver: Central Mexico (Americas/Mirasol, Jaboncillo, Onix, Azafran, Tian, Lupita, Almoloya);

Molybdenum: Cave Peak, Texas;

Uranium: Tidwell, Sinbad, and Shootaring, Utah and Basin, Wyoming;

Data from prior activities is limited or in the pro cess of being acquired and studied. The Company's t otal expenditures to date with respect to these other properties have been minimal.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The information in this section is presented in acc ordance with International Financial Reporting Stan dards, ("IFRS") as issued by International Accounting Standards Board. The follo wing discussion of our financial condition and resu lts of operations for the fiscal years ended December 31 and should be read in conjunction with our consolidated financial statements included in Item 17 of this annual report.*

Critical Accounting Estimates

The accounting estimates believed to require the mo st difficult, subjective or complex judgments, and which are the most critical to our reporting of results of operations and financial position, are as follows:

*Mineral Properties*

We capitalize all costs related to the acquisition and exploration of mineral properties on a property by property basis, net of recoveries until such time as these mineral properties are placed in to commercial production, sold or abandoned. If com mercial production is achieved from a mineral property, the related deferred costs will b e amortized prospectively on a unit-of-production b asis over the estimated life of the ore reserves. If a mineral property is abandoned, the r elated deferred costs are written down and expensed . From time to time, we may acquire or dispose of all or part of the mineral property inte rests under the terms of property option agreements . As such options are exercisable entirely at the discretion of the optionee, option payments are recorded as property costs or recoveries when p aid or received.

Long-lived assets, such as equipment and deferred e xploration, are reviewed for impairment at each rep orting period or more frequently as economic events indicate that the carrying amount o f an asset may not be recoverable.

On an ongoing basis, we evaluate each mineral prope rty for potential impairment based on results obtai ned to date to determine the nature of exploration, other assessment and development work, if any, that is warranted in the future and the potential for recovery of the deferred costs. If there is little prospect of future work on a pro perty being carried out within a three-year period from completion of previous activities, the deferred costs related to that property are written down to the estimated amount recoverable unless th ere is persuasive evidence that an impairment allowance is not required.

*Stock-based Compensation Expense*

From time to time, we may grant share purchase opti ons to directors, officers, employees and consultan ts. We use the Black-Scholes option pricing model to estimate the fair value for these options. This model, and other models which are use d to value options, require inputs such as expected volatility, expected life to exercise a nd interest rates. Changes to any of these inputs c ould cause a significant change in the stock-based compensation expense charged in a period.

*Fair value of derivative liabilities*

The fair value of derivative liabilities that are not traded in an active market is determined by using a valuation technique. Management makes estimates and utilizes assumptions in determining t he fair value for share-based payments, warrants, a nd the (gain) loss on the revaluation of the derivative liability;

*Income Taxes*

Income tax comprises current and deferred tax. Inco me tax is recognized in net income (loss), except t o the extent related to items recognized directly in equity or in other comprehensive loss.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. D eferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted by the report ing date and are expected to apply when the deferre d tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

## A. Operating Results

**2013 versus 2012**

For the year ended December 31, 2013 ("2013"), the Company reported a net loss of $28,817,916 compared to a net loss of $4,853,976 for prior year, the differences are mainly due to the impairments for mineral properties in the United States and central Mexico plus unrealized non cash fair value gain on derivative liabilities and loss on disposal of mineral properties. To preserve cash, the Company has reduced its general administration and corporate activities, and focused on supporting its exploration and development activities in its Nevada copper assets. Other general fluctuations are discussed below:

Exploration Costs

Exploration costs represent expenditures to undertake and support exploration activities on our properties. If they do not have characteristics of property, plant and equipment, they are expensed as incurred. Exploration costs charged to operations during 2013 were $67,448 compared to $182,852 for the prior year resulting from a reduced exploration activity level in Mexico.

General Administrative Expenses

General administrative expenses include overheads associated with administering the Company's regulatory requirements and supporting the exploration activities.

- Administration and general office decreased by $68,362 from $726,113 in 2012 to $657,751 in 2013 reflecting the amended service agreement with Manex Resources Group Inc. ("Manex"). Manex, owned by the Company's Corporate Secretary Mr. Lawrence Page, has provided head office premises, corporate accounting and administration services to Quaterra at market rates. The service agreement was renewed commencing June 30, 2012 for five years. On September 1, 2013 and March 1, 2014, the Company renegotiated to a reduced level at a monthly fixed fee of $8,000 for its Vancouver office space and $1,667 for its corporate services from Manex representing a 50% reduction from its previous year's charges.
- Consulting decreased by $108,014 from $366,364 in 2012 to $258,350 in 2013 due to the termination of the financial advisory service agreement on April 15, 2012 as well as a downward renegotiated community communication service in August 2012.
- Directors' fees have been suspended since January 1, 2013. By resolution, the board agreed in May 2013 to forego fee accruals until further notice.
- Investor relations and communications decreased by $184,588 from $224,409 in 2012 to $39,821 in 2013 due to the reduced number of tradeshow trips.
- Personnel costs reduced by $329,543 from $1,135,986 in 2012 to $806,443 in 2013 due to staff reductions and the voluntarily salary reductions from management. Further staff reductions have been made in the first quarter of 2014.
- Professional fees increased by $47,490 from $595,753 in 2012 to $643,243 in 2013 reflecting the increased legal fees for the Arizona uranium law suit which commenced early 2012.
- In September 2013, the Company granted 3,955,000 stock options at an exercise price of $0.16 for five years. In 2012, the Company granted 3,295,000 stock options at a weighted average exercise price of $0.45 for five years. The fair value as calculated by the Black Scholes model, of the Company's stock options has decreased in line with a reduction on the Company's share price.

Other and Non-Cash Items

- Foreign exchange: The Company recognized a foreign exchange loss of $166,914 in 2012 compared to $7,866 in 2013 due to the strengthening of the US dollar over the year in 2013. Volatility in the foreign exchange rate could continue to result in significant foreign exchange gains or losses. The Company does not hedge its exposure to changes in the value of the Canadian dollar.
- Fair value gain on derivative liability: Warrants denominated in a currency other than the Company's functional currency are deemed to be a derivative and valued at fair value. On each reporting date, the derivative liability is adjusted for fair value changes with the difference being recorded in profit and loss. Due to the decline in the Company's share price and also through the passage of time, the Company realized a non-cash gain of $2,363,892 in 2013 subsequent to the initial fair value recognition.

Gain (loss) on sale of mineral property: On Septemb er 19, 2013, the Company sold three properties in c entral Mexico to Goldcorp for US$375,000 plus applicable taxes. At the date of di sposal the total capitalized exploration expenditur es for these three properties were $3,225,818 which was written down to nil and result ed in a loss on disposal of $2,774,114. In October 2012, the Company sold its Butte Valley copper project to Freeport for US$2,00 0,000, and realized $820,712 gain. In July 2013, th e Company received an additional US$1,000,000 ($1,038,000) from Freeport as a contingent bonus from the sale of Butte Valley.
General exploration costs: These costs represent ex penditures to undertake and support exploration act ivities on the Company's properties, including costs incurred prior to the C ompany obtaining the rights to the mineral properti es. In addition, if the expenditures are deemed not to be specifically related to individual properties or not recoverable, they are expens ed as incurred.
Impairments: due to the current market condition, t he Company has abandoned inactive non-core mineral properties so as to focus its effort and resources in its copper properties in th e Yerington District. As a result, $26,212,984 impa irments were recorded in the year ended December 31, 2013. In 2013, management assess ed the Company's ability to continue exploration ac tivities on all of its mineral properties and made a decision to focus exploration efforts only on certain key properties and allow o ther claims to lapse. Accordingly, the following mineral properties were fully impaire d to net loss:

(i) Uranium properties – $12,589,114
(ii) Missouri Flat – $117,860
(iii) Copper Canyon – $576,533
(iv) All Mexico properties other than Nieves – $12,9 29,477.

Interest income (expenses): interest earned varies based on the timing, type and amount of equity plac ements and resultant fluctuations in cash. The interest expense in 2013 was related t o the unsecured loans from the Company's Chairman. As of December 31, 2013, US$600,000 remained unpaid. On March 18, 2014, the loans were converted to a demand basis with a 40-da y notice period.

**2012 versus 2011**

For the year ended December 31, 2012, we reported a net loss of $4,853,976 compared to a net loss of $ 11,264,539 for the previous year. The decreased loss in 2012 was mainly attributable to $ 4,183,224 impairments and $2,846,707 stock-based co mpensation recorded in 2011. Other general fluctuations are discussed below:

Exploration Costs

Exploration costs represent expenditures to underta ke and support exploration activities on our proper ties. If they do not have characteristics of property, plant and equipment, they are expensed as incurred. Exploration costs charged to operatio ns during 2012 were $182,852 compared to $506,297 for the prior year resulting from an increase in the consideration of potential properties in Mexico.

General Administrative Expenses

General administrative expenses include overheads a ssociated with administering and financing our expl oration activities.

General administrative expenses were $3,371,294 (ex cluding stock-based compensation and amortization), an increase of $329,884 compared to $3,701,178 in 2011. The higher costs in 2011 res ulted from the increased support required for advan cing the MacArthur and Uranium mineral properties including the retention of addit ional personnel, the rising regulatory costs associ ated with increased regulatory requirements in Canada and the United States, and g eneral and administration expenditures to support o ur expanded operations.

- Administration and general increased by $24,443 fro m $701,670 in 2011 to $726,113 in 2012 reflecting t he new rates in the Manex service agreement renewed in February 2012.
- Consulting decreased by $278,393 from $644,757 in 2 011 to $366,364 in 2012 due to a onetime consulting agreement accrual made in 2011 and the termination of the financial advisory service agreement on April 15, 2012.
- Investor relations and communications decreased by $84,701 from $309,110 in 2011 to $224,409 in 2012 d ue to the new website design of the Company in 2011.
- Personnel costs decreased by $16,806 from $1,152,79 2 in 2011 to $1,135,986 in 2012 reflecting the grad ual slow-down of the exploration activities of the Company.

- Professional fees increased by $165,864 from $429,8 89 in 2011 to $595,753 in 2012 reflecting the incre ased legal fees for the Arizona Uranium law suit starting January 2012.
- Share-based payments: share-based payments decreased by $1,800,190 from $2,846,707 in 2011 to $1,046,5 17 in 2012.
- Travel and promotion reduced by $149,949 from $203, 086 in 2011 to $53,137 in 2012 reflecting a reversa l of travel expenses provision accrued in the prior years and no longer required.

Other and Non-Cash Items

- Exploration partner administration income: The Comp any charges a 10% administration fee on its Nieves joint venture partner's shared exploration costs and 5% fee on expenditures on its central Mexico properties under the Goldcorp IFA agreement.
- Foreign exchange: The Company recognized a foreign exchange loss of $189,877 in 2011 compared to $166, 914 in 2012 due to the fluctuation of the Canadian dollar against the US d ollar. Volatility in the foreign exchange rate coul d continue to result in significant foreign exchange gains or losses. The Company does not hedge its exposure to changes in the value of the Canadian dollar.
- The Company sold its Butte Valley copper project to Freeport for gross proceeds of US$2 million, of wh ich net $1,737,692 was received on October 2, 2012. As of December 31, 201 2, the Company recorded $820,712 gain after its acc umulated acquisition and exploration costs of $1,159,669 incurred.
- General exploration costs: These costs represent ex penditures to undertake and support exploration act ivities on the Company's properties, including costs incurred prior to the C ompany obtaining the rights to the mineral properti es. In addition, if the expenditures are deemed not to be specifically related to individual properties or not recoverable, they are expens ed as incurred.
- During the year ended in 2012, 3,695,000 stock opti ons were granted at a weighted average exercise pri ce of $0.47 versus 3,690,000 granted in 2011 at a weighted average exercise pric e of $1.26. The values of share- based payments wer e determined by the Black-Scholes option pricing model recognized over the ve sting period of options. See Note 8(a) in the audit ed consolidated financial statements for Black Scholes assumptions used and t he resulting estimate of fair value.
- Impairments: in 2011 the carrying value of five pro perties in the United States totaling $4,183,224 wa s written down due to lack of exploration merit. The Company conducted impairment test and concluded no impairment write-down was re quired as of December 31, 2012.
- Interest income: interest earned varies based on th e timing, type and amount of equity placements and resultant fluctuations in cash.
- (Recovery) write-off of equipment: $39,954 insuranc e proceeds were received for the losses of two vehi cle s in Mexico in 2011. $38,525 was written off in 2011 due to one of the l osses

**B. Liquidity and Capital Reserves**

As at March 24, 2014, the Company has cash of $700, 000 including the funds received from the uranium s ale. The Company is considering alternative ways to raise funds including equity fi nancing or the sale and/or the optioning of its min eral property interests via joint venture agreements with third parties to provide working ca pital and to finance its mineral property acquisiti on and exploration activities. The Company continues to take steps to minimize costs i ncluding reduction in management remuneration. Sinc e the Company does not generate any revenue from operations, its long-term profitab ility will be directly related to the success of it s mineral property acquisition, divestment and exploration activities.

On March 14, 2014, the Company closed a transaction to sell its uranium properties and assets located in the states of Arizona, Utah and Wyoming for gross proceeds of $500,000 . The transaction provides working capital and will f ree-up time and resources for the Company to focus on its Yerington-district copper properties.

On September 13, 2013, the Company announced the cl osing of a private placement for gross proceeds of US$2,981,000. Details please refer to note 8 in the audited consolidated financial sta tements for the year ended December 31, 2013. Among the total share issue costs of $106,455, $24,637 finder's fees were paid in cash w ith regard to the sale of some of the units. All se nior management and Directors of the Company participated.

On July 29, 2013, the Company received US$1,000,000 from Freeport as an acquisition bonus arising out of the Butte Valley property sale announced on October 4, 2012 which was contingent o n Freeport acquiring certain other mineral properti es.

The proceeds have been used to continue advancing i ts Yerington copper projects and general corporate expenditures.

During the year ended December 31, 2013, the Compan y expended $2,430,403 (2012 - $3,517,730) cash in o perating activities with allocations of 35% in professional and consulting expenses, 31% in personnel costs, 25% in administrat ion and general office expenses, 5% in travel and shareholder communications, and 4% in transfer agent and regulatory fees.

The Company also had $4,205,935 (2012 - $13,397,677 ) in mineral property acquisition and exploration c osts: allocated as 51% in Yerington district copper projects, 26% in central Mexico, 6% each in Nieves and Uranium, 2% in Herbert Gold, an d 9% in other U.S. properties. The Company has decided to focus its efforts on Yeringt on copper projects and continue to monetize its non -core assets. As of March 24, 2014, the Company had received US$95,497 as a reimburseme nt of shared exploration costs up to date.

The ability of the Company to continue its explorat ion programs is dependent on the continuing success of its programs and on generating sufficient additional funding to support those expl oration programs. Management is continuing to consi der ways to monetize its non-core exploration properties. The business of mining expl oration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining op erations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead, pay its liabilities, and maintain its mineral interests.

On February 6, 2014 the Company voluntarily withdre w its common shares from listing on the NYSE MKT. T he withdrawal from listing on the NYSE MKT and subsequent listing on the OTCQX ma rket under the symbol "QTRRF" does not affect the l isting of the shares on the TSX Venture Exchange.

**C. Research and Development, Patents and Licenses, etc.**

We do not have a research and development policy, nor do we hold any patents, licenses, or other intellectual property.

**D. Trend Information**

Mineral property expenditures can vary from quarter to quarter depending when option payments are due and the stage of the exploration program. For example, drilling may slow down for a period of time when results are analyzed, resulting in lower costs during that period.

We have had no revenue from mining operations since our inception. Income was generated through manage ment fees on certain properties and interest earned on banker's acceptance investments.

**E. Off- Balance Sheet Arrangements**

None.

**F. Tabular Disclosure of Contractual Obligations**

The following table outlines our contractual and optional obligations at December 31, 2013:

| | Total | 1 Year | 2-3 Years | 4-5 years | > 5 years |
|---|---|---|---|---|---|
| Mineral properties [(a)] | $ 6,864,025 | $ 942,583 | $ 1,657,217 | $ 2,111,118 | $ 2,153,107 |
| Office lease [(b)] | 407,627 | 144,395 | 263,232 | - | - |
| Loan payables | 689,038 | 689,038 | - | - | - |
| | $ 7,960,690 | $ 1,776,016 | $ 1,920,449 | $ 2,111,118 | $ 2,153,107 |

(a) We are required to make option payments and other expenditure commitments to maintain the properties and earn interest.

(b) During 2012, we renewed the service agreement wi th Manex Resource Group ("Manex") for its Vancouver office space, administration, and corporate development. The agre ement was amended on September 1, 2013 and subseque ntly amended on March 1, 2014. The agreement can be terminated upon paying Manex an amount equal to one year's rent. T he current expiry date is August 31, 2017. The office lease for Yerin gton Nevada, Unite States office was amended on Jul y 8, 2013 and subsequently on January 14, 2014. This lease expire s on February 28, 2015.

**G. Safe Harbour**

The safe harbor provided in Section 27A of the Securities Act of 1933, as amended, and Section 21 E of the Securities Exchange Act of 1934, as amended, shall apply to forward-looking in formation provided pursuant to Item 5.F. Please see "Cautionary Statement Regarding Forward-Looking Information" at the outset of this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**A. Directors and senior management**

The following tables and biographies set forth information about our directors and executive officers:

| Name | Age | Positions Held | Period as Director or Officer | Jurisdiction of Residence |
|---|---|---|---|---|
| Steve Dischler | 55 | Director & President & Chief Executive Officer | Since 2011 | Yerington, Nevada |
| Thomas C. Patton | 70 | Director & Chairman | Since 1998 | Washington, U.S. |
| Tracy Stevenson | 63 | Director | Since 2007 | Utah, U.S. |
| John Kerr | 73 | Director | Since 1993 | British Columbia, Canada |
| LeRoy Wilkes | 71 | Director | Since 2006 | Colorado, U.S. |
| Anthony Walsh | 62 | Director | Since 2012 | British Columbia, Canada |
| Todd Hilditch | 46 | Director | Since 2012 | British Columbia, Canada |
| Michael Berry | 66 | Director | Since 2013 | Whippany, New Jersey |
| Lawrence Page, Q.C | 74 | Corporate Secretary | Since 1995 | British Columbia, Canada |
| Eugene Spiering | 60 | Vice President, Exploration | Since 2006 | British Columbia, Canada |
| Scott Hean | 66 | Chief Financial Officer | Since 2006 | British Columbia Canada |

Steven Dischler

Mr. Dischler graduated from the University of Wisco nsin in 1981 (BS) and from the University of Arizon a in 1984 (MS). Both of his degrees are in Mining Engineering. From 2007 through 2011, Mr. Dischler was a Project General Manager and Stra tegy Manager for a global oil company, BP. In his roles at BP he was responsible for managing major capital projects up to $250MM (U S) and for managing a portfolio of legacy mining sites across the western US for the c ompany. In prior roles Mr. Dischler was a consultan t for 25 years which included permitting and development of major mining sites at numerous locations in the US. Mr. Dischler is a re gistered Professional Engineer in 8 states and has been a member of the Society of Mining Engineers since 1978.

Dr. Thomas Patton

Dr. Patton graduated from the University of Washing ton in 1971 (Ph.D.) and has worked with both junior and senior mining companies. He served as the President and Chief Operating Officer for Western Silver Corporation from January 1998 t o May 2006. Among his accomplishments at Western Silver were the discover y and delineation of the class Peñasquito silver-go ld-lead zinc deposit in Zacatecas, Mexico and the subsequent sale of the company to Gl amis Gold Ltd. Prior to joining Western Silver, Dr. Patton held senior positions with Rio Tinto PLC and Kennecott Corporation, where he serve d as Senior Vice President, Exploration and Busines s Development. Dr. Patton is a member of the Society of Economic Geologists and th e American Institute of Mining & Metallurgical Engineers.

Tracy Stevenson

Mr. Stevenson received a B.S. Accounting Magna Cum Laude from the University of Utah. He has internati onal experience in finance, mergers and acquisitions, strategic planning, corpo rate governance, auditing, administration and infor mation systems and technology. He worked for Rio Tinto plc, the world's second larges t mining company, and related companies for 26 year s, where he held a number of senior leadership positions. Mr. Stevenson was the global head of information systems and shared services for Rio Tinto. He also served for four years as Executive Vice President, Chief Financial Officer and a director of Comalco Ltd., an Australi a-based international aluminum company partially owned by Rio Tinto, and a further four years as Chief Financial Officer and a direct or of Kennecott Corporation, a diversified North American mining company owned by Rio Tinto. He also has public accounting experience with Coopers & Lybrand (now Price Waterhouse Coopers). Mr. Stevenson also serves as a director of Vista Gold Corp. Mr. Stevenson i s also a founding member of Bedrock Resources, LLC, a private resources financial advis ory firm and SOS Investors, a private resources inv estment firm.

John R Kerr

John R. Kerr graduated from the University of Briti sh Columbia in 1964 with a Bachelor of Applied Scie nce (B. ASc) degree in Geological Engineering. He has participated in the mining indu stry continuously since graduation as an exploratio n geologist. Mr. Kerr has gained experience in recognition and identification of min eral potential in a diversified field of geological environments. Mr. Kerr also serves as director of Bravada Gold Corporation. He currently operates a geological consulting practice out of Va ncouver, B.C., with projects located in all areas of North America.

LeRoy Wilkes

Mr. Wilkes was President of Washington Group Intern ational's mining business unit where he was respons ible for the operating and financial performance of the unit's international operations in the coal, metals and industrial minerals markets. He has 38 years of mining experience in the precious metals, coal industrial metals, and ba se metals mining and processing. Prior to joining t he Washington Group, Mr. Wilkes served as executive vice-president and chief operating off icer of Santa Fe Pacific Gold Corporation of Albuqu erque, New Mexico from 1988 to 1995. Mr. Wilkes also previously served as executive vice-president of Washington Corporation of Missoula, Montana, responsible for merger and acquisition activities. He earlier served as vi ce-president and general manager of Kennecott Ridge way Mining Company of Ridgeway, South Carolina, and director of business developmen t of Anaconda Minerals Co. of Denver, Colorado. He has held management and supervisory positions at surface and underground mi nes producing molybdenum, copper, limestone, lead s ilver and zinc. Mr. Wilkes has a degree in mining engineering from the Montana Schoo l of Mines. Mr. Wilkes also serves as a director an d chairman of the Board of Sabina Gold & Silver Corp.

Anthony Walsh

Mr. Walsh graduated from Queen's University (Canada) in 1973 and became a member of The Canadian Insti tute of Chartered Accountants in 1976. Mr. Walsh has over 20 years' experience in th e field of exploration, mining and development. Fro m 2008 to 2011, Mr. Walsh was President and CEO and a Director of Sabina Gold & S ilver Corp. From 1995 to 2007, Mr. Walsh was Presid ent and Chief Executive Officer of Miramar, from 1993 to 1995 was the Senior Vice-P resident and Chief Financial Officer of a computer leasing company and from 1989 to 1992 was Chief Financial Officer and Senior Vice-Pr esident, Finance of International Corona Resources Ltd., a gold producer Mr. Walsh is currently Chairman of Stornoway Diamonds Ltd. and s erves as a director of several other public compani es, namely: Sabina Gold & Silver Corp., Dundee Precious Metals Ltd., Avala Resources Ltd., Nova Gold Ltd., and TMX Group Ltd.

Todd Hilditch

Mr. Hilditch is President, Chief Executive Officer and a Director of Terraco Gold Corp., a TSXV-listed gold exploration company focussed in the western United States. He is a Director of Sama Resources Inc., a TSXV-listed base metals company focussed in West Africa, and was its President and Chief Executive Officer until 2010. U ntil 2010, Mr. Hilditch was President, Chief Execut ive Officer and a Director of Salares Lithium Inc., which was acquired by Australia-based Talison Lithium Limited, the world's largest lithi um producer and a TSE-listed company. Mr. Hilditch is the President and owner of Rock Management Consulting Ltd., a private mining management services and consulting company.

Michael Berry

Dr. Berry served as a professor of investments at t he Colgate Darden Graduate School of Business Admin istration at the University of Virginia, and as the Wheat First Endowed Chair at J ames Madison University. He has managed small- and mid-cap value portfolios for Heartland Advisors and Kemper Scudder. For the past decade he has been a highly regarded lecturer at t he Federal Reserve Bank of the United States of America and is a well-known author and speaker in the Discovery Investing world. He i s co-developer of the Discovery Investing Scoreboard software which ranks companies

relative to their discovery potential. He publishes Morning Notes which discusses geopolitical, techno logical and economic trends and their effect on capital markets, and identifies opportuni ties in the area of natural resources, high technol ogy, infrastructure development and biotech.

Lawrence Page, Q.C.

Lawrence Page, Q.C. obtained his law degree from th e University of British Columbia in 1964 and was ca lled to the Bar of British Columbia in 1965. He has been admitted to the Bar of Ontario for the purpose of acting as counsel in specified litigation. Mr. Page was awarded the distinction of Queen's Counsel in 1988. Mr. Page pr actices on his own in Vancouver in the areas of nat ural resource law and corporate and securities law. He is the principal of Manex Resour ce Group, which provides administrative, financial, corporate and geological services to a number of public companies in the mineral resource sector, including Quaterra. Mr. Page also serves as a director of five public companies: Duncastle Gold Corp., Valterra Resource Corporation , Southern Silver Exploration Corp., Bravada Gold C orporation and Homestake Resource Corporation.

Eugene Spiering

Mr. Spiering has a Bachelor of Science-Geology degr ee from the University of Utah. He has over 30 year s of experience in the mining exploration industry. Mr. Spiering previously held the position of Vice President, Exploration at Rio Narcea Mines Ltd., where he managed a team that discovered the El Valle and Corcoesto gol d deposits and completed the final definition of th e Carles and Salave gold deposits and the Aguablanca nickel deposit in Spain. Prior to hi s tenure at Rio Narcea, Mr. Spiering held the posit ion of senior geologist with Energy Fuels Nuclear, Inc. where he participated in the discover y of the Arizona 1 and Hermit uranium deposits. His responsibilities with Energy Fuels included drilling supervision, geologic mapping, an d ore reserve calculations related to uranium explo ration in northern Arizona and gold exploration in the western US and Venezuela. Mr. Sp iering is a member of the Society of Economic Geolo gists, the Society for Mining, Metallurgy & Exploration, the American Association of Petroleum Geologists, and is a Fellow member of the Australasian Institute of Mining and Metallurgy.

Scott B. Hean

Mr. Hean graduated from Simon Fraser University in 1973 and from the Ivey School of Business, London, Ontario, in 1975. He completed the Institute of Corporate Directors Director Educa tion program in May 2006. Currently, Mr. Hean is di rector and past chair of the audit committee for Sabina Gold & Silver Corp. and chair of the audit committee for Formation Metals Ltd. He has been CFO of the Company since 2006. Previously he held senior management an d executive positions with Bank of Montreal as Seni or Vice President and Managing Director responsible for financing in the natural r esources sectors in North America and with J.P. Mor gan of New York, where he was involved in financing oil and gas companies. In the non-profit sector, he serves as a director and cha ir of the Bill Reid Trust, a not for profit organization concerning the work of the internation ally renowned Haida artist, Bill Reid and has serve d on numerous not-for-profit Boards, including Outward Bound Canada and B.C. Children's Hospital.

**B. Compensation**

Executive Officers

The following table sets forth the compensation paid to executive officers for the fiscal year ended December 31, 2013.

| Name | Salary ($) | Bonus ($) | Securities Under Options Granted (#) | Share-Bsed Payment Under Options ($) (3) | All other Compensation | Total ($) |
|---|---|---|---|---|---|---|
| Thomas C. Patton<br>Chairman | 50,000 | nil | 450,000 | 54,000 | nil | 104,000 |
| Eugene Spiering<br>VP of Exploration | 150,000 | nil | 190,000 | 22,800 | 2,446 | 172,800 |
| Scott Hean (1)<br>CFO | 12,500 | nil | 320,000 | 38,400 | 89,074 | 139,974 |
| Steve Dischler (2)<br>President & CEO | 257,750 | nil | 900,000 | 66,682 | nil | 324,432 |

(1) Consulting fees paid to Atherton Enterprises, a company owned by Mr. Scott Hean in consideration of Mr. Hean's

services as Chief Financial Officer. Effective December 1, 2013, Mr. Hean became a salaried employee of the Company.

(2) Share-based payment under options for Mr. Dischler reflected the 300,000 options vested during the year.

(3) The assumptions used to calculate share-based payment were risk-free interest rate 1.72%, expected share price volatility 96%, expected option life 5 years, forfeiture rate 0%, and expected dividend yield 0%.

We granted stock options on September 19, 2013 under our Incentive Stock Option Plan at an exercise price of $0.16 per share for a five year term to the executive officers named above in the following amounts: Dr. Thomas Patton received 450,000 options; Mr. Spiering received 190,000 options; Mr. Hean received 320,000 options, and Mr. Dischler received 900,000 options.

Board of Directors

The Company previously approved annual compensation to non-executive directors including payment of $500 per meeting attended, $500 per travel day and annual fees as follows:

| | |
|---|---|
| Independent Directors | $12,000 |
| Chairman of the Board of Directors | $24,000 |
| Chairman of the Audit Committee | $15,000 |
| Chairman of any other committee | $13,500 |

As approved by a resolution of the Board of Directors, no directors' fees were paid or accrued in 2013. The Company granted stock options on September 19, 2013 under our Incentive Stock Option Plan at an exercise price of $0.16 per share for a five year term to the directors in the following amounts: Tracy Stevenson received 200,000 options; John Kerr received 180,000 options; LeRoy Wilkes received 180,000 options; Anthony Walsh received 180,000 options; Todd Hilditch received 180,000 options; and Michael Berry received 130,000 options.

**C. Board Practices**

Term of Office

Our directors are elected annually at our annual general meeting and each officer holds such office for one year, until the next annual general meeting of shareholders, or until replaced by his or her predecessor.

Service Contracts

During the most recently completed financial year, five of our executive officers had service contracts in place which provide for benefits upon termination of employment.

*Thomas Patton* – In January 2010, Dr. Thomas Patton entered into an employment agreement with the Company and its subsidiary, Quaterra Alaska, Inc. for a period of five years which replaced a prior employment agreement dated January 1, 2009. Under the employment agreement, Dr. Patton is entitled to receive an annual base salary of $150,000. Upon the expiration of one year following the date of the employment agreement and each year thereafter, the Company will review Dr. Patton's salary with a view to its increase, giving consideration to the Company's financial position and the scope of its activities. Dr. Patton may be eligible to participate in future stock option grants. The Company may terminate the employment of Dr. Patton only for breach of the employment agreement or for cause. Dr. Patton is entitled to two months' notice of such discharge. If Dr. Patton becomes disabled and unable to perform his regular duties, he shall be entitled to receive his full salary for two months. Upon a change of control, as defined in the employment agreement, Dr. Patton has the right to terminate the employment agreement and receive an amount of money equal to his annual salary for two (2) years, that amount being $300,000.

*Lawrence Page:* On July 15, 2011, Lawrence Page, Q.C. entered into a consulting agreement with the Company for a period of five years, whereby Mr. Page provides corporate secretarial services to the Company and is entitled to receive an annual fee of $50,000. Mr. Page may be eligible to participate in future stock option grants. Upon a change of control, as defined in the agreement, Mr. Page has the right to terminate the agreement and receive an amount of money equal to his annual salary for two (2) years, that amount being $100,000. Mr. Page resigned as a director on July 31, 2013 but continues to serve the Company as Corporate Secretary.

*Steven Dischler:* On October 24, 2011, Steven Dischler entered into a n employment agreement with the Company for a perio d of five years for his position as Vice President, General Manager , Yerington District. Mr. Dischler was appointed Pr esident and a director of the Company on July 31, 2013. Pursuant to the agreement, Mr. Di schler earns an annual salary of US$250,000, is ent itled to participate in future stock option grants, and may only have his employment ter minated by the Company for breach of the employment agreement or for cause. Upon a change of control, as defined in the employment agr eement, Mr. Dischler has the right to terminate the employment agreement and receive an amount of money equal to his annual salary for two (2) years, that amount being US$500,000.

*Scott Hean:* Scott Hean and his wholly-owned company entered int o a services agreement with the Company effective J anuary 1, 2010 for a term of five years. Pursuant to the agreement, Mr. Hean earns an annual salary of $175,000, is entitle d to participate in future stock option grants, and may only have his employment terminated by the Company in the event of default. Upon a cha nge of control, as defined in the agreement, Mr. Hean has the right to terminate the services agreement and receive an amount of money e qual to his annual salary for two (2) years, that amount being $350,000. Effective Decemb er 1, 2013, Mr. Hean became a full time employee of the Company with a salary of $150,000.

*Eugene Spiering:* Eugene Spiering entered into an employment agreemen t with the Company effective January 1, 2010 for a term of five years. Pursuant to the agreement, Mr. Spiering earn s an annual salary of $200,000, is entitled to part icipate in future stock option grants, and may only have his employment terminated by the Comp any for breach of the employment agreement or for c ause. Upon a change of control, as defined in the employment agreement, Mr. Spierin g has the right to terminate the employment agreeme nt and receive an amount of money equal to his annual salary for two (2) years, that amount being $400,000.

Committees

Our Board of Directors has established an Audi t Committee and Corporate, Governance, Nomination a nd Compensation Committee.

*Audit Committee* –The Company's Board of Directors has a separately- designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The members of the Audit Commi ttee are Anthony Walsh, Todd Hilditch and John Kerr. The Company's Board of Directors has determined that each of Messrs. Walsh, Hilditch, and Kerr are independent (as provided for under Rule 10A-3 of the Exchange Act) and are financially literate. The Audit Committee i s responsible for assisting directors to meet their responsibilities, providing better commu nication between directors and external auditors, e nhancing the independence of the external auditor, increasing the credibility and ob jectivity of financial reports, and strengthening t he role of the directors, facilitating in-depth discussions among directors, management, and the ex ternal auditor. The Audit Committee meets at least four times during a year. A copy of the Audit Committee Charter is available through our website at www.quaterraresources.com.

*Corporate Governance, Nomination and Compensation C ommittee* – The members of the Corporate Governance Nominatio n Compensation Committee (the "CGNCC") are LeRoy Wilk es, Anthony Walsh, and Todd Hilditch all of whom ar e independent. The Board of Directors has determined that the composition of th e CGNCC ensures an objective process for determinin g compensation of executive officers. The CGNCC meets regularly and considers m atters of governance and compensation. The CGNCC ma y seek the advice of third party independent consultants as may be required in particular circumstances and submits reports to th e full Board of Directors on a regular basis.

## D. EMPLOYEES

During the fiscal years ended December 31, 201 3, 2012 and 2011, we had direct employees as outlined below.

| Company | 2013 | 2012 | 2011 |
|---|---|---|---|
| Quaterra Resources Inc. | 4 | 4 | 4 |
| Quaterra Alaska Inc. | 9 | 10 | 11 |
| Minera Agua Tierr S.A. de C.V. | Nil | Nil | Nil |
| Quaterra International Limited | Nil | Nil | Nil |
| Total | 13 | 14 | 15 |

We renewed the service agreement with related party Manex Resource Group Inc. ("Manex") in Februa ry 9, 2012 (as amended on September 1, 2013 and March 1, 2014) whereby Manex provides administrative, accounting, and secretarial

services to us. The basic fee for office space, off ice infrastructure and other services specified in the agreement is $19,667 per month commencing March 1, 2014. We also reimburse Manex f or office supplies including paper, courier, postag e, parking, filing fees and other out-of-pocket expenses. During the three years ended December 31, 2013, we paid Manex the following:

| | Fiscal year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Office space and administration | $ 237,948 | $ 267,124 | $ 241,552 |
| Accounting | 165,864 | 164,088 | 163,799 |
| Corporate Secretray | 56,591 | 100,454 | 103,387 |
| 15% charges on recovery | 2,621 | 3,683 | 5,839 |
| | $ 463,024 | $ 535,349 | $ 514,577 |

Manex is located at the same address as our co mpany at suite 1100, 1199 West Hastings Street, Van couver, British Columbia. Manex is a private company controlled by Lawrence Page, the Co mpany's Corporate Secretary.

**E. SHARE OWNERSHIP**

All persons listed in subsection 6.B above ben eficially own an aggregate of 8,330,234 Common shar es or 4.31% of our common shares outstanding. Dr. Thomas Patton beneficially owns 5, 214,762 or 2.70% of our common shares and he has th e right to exercise or redeem various stock options that if fully exercised he wi ll beneficially own 6,624,762 common shares of the Company or 3.42% of our outstanding shares. No other director or officer beneficially owns greater than 1% of our common shares.

We grant stock options to directors, officers, employees and consultants who provide services to us, including our subsidiaries, pursuant to our Incentive Stock Option Plan. The purpose of the Incentive Stock Option Plan is to provide increase d incentive to contribute to our future success and prosperity, thus enhancing the value of our shares for the benefit of all the shareholders and increasing our ability to attract and retain skilled and motivated individuals in the ser vice of us. Our Incentive Stock Option Plan is a "r olling" plan through which the maximum number of issuable shares underlying options is equ al to 10% of our outstanding shares. As of December 31, 2013, there were 16,310,000 options outstanding under the Incentive Stock Optio n Plan.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSA CTIONS**

**A. Major Shareholders**

We are not aware of any beneficial shareholder holding greater than 5% of our common shares as of the date of this annual report or during the prior three years, other than:

| | | |
|---|---|---|
| Goldcorp Inc. | 10,294,825 common shares | 5.32% |

As of December 31, 2013, approximately 54% of our common shares were held in Canada and approxima tely 45% of our common shares were held in the U.S., with the balance held in var ious other countries.

There are no arrangements known to us that may, at a subsequent date, result in a change in contr ol.

**B. Related Party Transactions**

During fiscal 2013, we paid consulting fees of $88,542 paid to Atherton Enterprises, a company ow ned by Scott Hean (CFO) and, and we also paid legal fees of $15,029 to a law firm of wh ich Lawrence Page is the principal.

The Company renewed the service agreement with related party Manex Resource Corp. ("Manex") on Fe bruary 9, 2012 (as amended on September 1, 2013 and March 1, 2014) which replaces a prior service agreement dated June 9, 2008, wher eby Manex provides administrative, accounting, and secretarial services to the Company . Manex is a private company controlled by Lawrence Page, Corporate Secretary of the Company. The basic fee for office space and office infrastructure is $8,000 per month and $11,667 for other services rendered specified in the agreement. The Company also reimburses Manex for of fice supplies including paper, courier, postage, pa rking, filing fees and other out-of-pocket expenses. During the year ended December 31, 2013 the Company paid $463,024 to Manex. Manex is located at the same address as the Company at

suite 1100, 1199 West Hastings Street, Vancouver, B ritish Columbia, V6E 3T5. We believe the terms of t he Manex agreement are similar to that which would be obtainable from an unrelated party.

As of December 31, 2013 the Chairman of the Board o f the Company had advanced a total of US$800,000 (t he "loans") to the Company for operating expenditures. The loans are unsecured and are repayable within nine months at an annual inte rest rate of 10%. As of March 24, 2014, the principal of the loan remains US$600,000. The Chairman had reduced his cash remuneration to $1 per year since December 2012 with no accrual, and starting September 1, 2013, he was paid $150,000 per year. Commencing January 16, 2014, the chairman voluntarily reduced his salary by 50% with the rest 50% accrued.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

Financial Statements

The consolidated statements of financial posit ion of Quaterra Resources Inc. as of December 31, 2 013 and 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows of Quaterra Resources Inc. for the years ended December 31, 2013, 2012 and 2011, as well as the auditors' report thereon, are presented at Item 17 of this annual report.

Legal Proceedings

As described in "Future Work Plans" as part of the Arizona Uranium Claims, USA discussion under I tem 4D above, the Company has initiated a lawsuit against the U.S. Department of the Interior and Bureau of Land Management. As of M arch 14, 2014, the Company completed the sale of the Arizona Uranium Claims. O n March 14, 2014, the Company closed a transaction to sell its uranium properties and assets located in the states of Arizona, Utah and W yoming for gross proceeds of $500,000 and we have n o further involvement in this litigation.

From time to time, we may be a party to pendin g or threatened legal proceedings and arbitrations that are routine and incidental to our business. Based upon information presently availabl e, and in light of legal and other defenses availab le to us, our management does not consider the liability from any threatened or pending litigation to be material.

Dividends

We have never declared or paid any cash divide nds on our common stock and we do not anticipate pa ying any cash dividends in the foreseeable future.

Significant Changes

Except as otherwise disclosed in this annual r eport, including under Item 5. "Operating and Finan cial Review and Prospects", there has been no significant change in our financial positio n since December 31, 2013.

**ITEM 9. THE OFFER AND LISTING**

**A. Offer and listing details**

Our common shares have traded on the TSX Venture Exchange since November 14, 1997 under the symbo l QTA. Our common shares also have traded on the NYSE MKT (previously known as th e NYSE AMEX) from March 4, 2008 until February 6, 2 014 under the symbol QMM. On February 7, 2014, our shares began trading on the OTCQX under the symbol QTRRF. The following table set forth the price history of our common shares for the periods indicated.

| | TSX Venture Exchange (C$) | | NYSE MKT (US$) | | OTCQX (US$) | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | | |
| Fiscal Year Ended December 31, 2013 | 0.36 | 0.065 | 0.37 | 0.07 | - | - |
| Fiscal Year Ended December 31, 2012 | 0.74 | 0.32 | 0.71 | 0.32 | - | - |
| Fiscal Year Ended December 31, 2011 | 2.08 | 0.54 | 2.21 | 0.50 | - | - |
| Fiscal Year Ended December 31, 2010 | 2.50 | 1.05 | 2.42 | 1.01 | - | - |
| Fiscal Year Ended December 31, 2009 | 2.05 | 0.41 | 2.28 | 0.30 | - | - |
| | | | | | | |
| Fiscal Year Ended December 31, 2013 | | | | | | |
| First Quarter | 0.36 | 0.20 | 0.37 | 0.19 | - | - |
| Second Quarter | 0.23 | 0.09 | 0.22 | 0.09 | - | - |
| Third Quarter | 0.17 | 0.09 | 0.17 | 0.09 | - | - |
| Fourth Quarter | 0.15 | 0.065 | 0.15 | 0.07 | - | - |
| | | | | | | |
| Fiscal Year Ended December 31, 2012 | | | | | | |
| First Quarter | 0.74 | 0.46 | 0.71 | 0.45 | - | - |
| Second Quarter | 0.60 | 0.34 | 0.55 | 0.35 | - | - |
| Third Quarter | 0.40 | 0.32 | 0.46 | 0.32 | - | - |
| Fourth Quarter | 0.54 | 0.32 | 0.60 | 0.33 | - | - |
| | | | | | | |
| February 2014 | 0.09 | 0.045 | - | - | - | - |
| February 7-28, 2014 | - | - | - | - | 0.0795 | 0.05 |
| February 1-6, 2014 | - | - | 0.08 | 0.04 | - | - |
| January 2014 | 0.11 | 0.06 | 0.10 | 0.05 | - | - |
| December 2013 | 0.10 | 0.07 | 0.11 | 0.07 | - | - |
| November 2013 | 0.115 | 0.065 | 0.10 | 0.07 | - | - |
| October 2013 | 0.15 | 0.105 | 0.15 | 0.10 | - | - |
| September 2013 | 0.17 | 0.15 | 0.17 | 0.15 | - | - |

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See subsection 9.A. "Offer and Listing Details" above.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

Incorporation

We are governed by Articles dated June 13, 200 5 and amended December 11, 2007. Our Articles are o n file with the Office of the British Columbia Registrar of Companies under Certificate o f Incorporation No. BC0446713. Under the provisions of the *Business Corporations Act* (BC), we have the capacity and the rights, powers, and privileges of an individual of full capacity. T here are no restrictions in our Articles on the business that we can carry on or the powers we can exercise.

Powers and Functions of the Directors

Under Article 17, a director is obligated to d isclose a potential interest in a contract or trans action being considered by us, and may not vote on a contract or transaction with a disclosabl e interest, but the director shall be counted in th e quorum at the meeting of the Board of Directors at which the contract or transaction is approved.

Under Article 13, the Board of Directors may, in the absence of an independent quorum, vote compe nsation to themselves.

Under Article 8, there are no limitations on b orrowing powers exercisable by our Board of Directo rs.

There are no provisions in our Articles for th e retirement or non-retirement of a director under an age limit.

There is no requirement in our Articles for a director to hold any of our common shares.

Rights and Restrictions Attached to the Common Shar es

Our common shares rank equally as to dividend rights, voting rights, profits, and liquidation rig hts. The common shares are not subject to redemption or sinking fund provisions, liability to further capital calls, nor any provisions discrimi nating against any existing or prospective holder of such shares as a result of such shareholder owning a substantial number of shares.

Alteration of Share Rights

In accordance with the *Business Corporations Act* (BC) and our Articles, a special resolution is requ ired to change the rights of common shares, and must be (a) passed at a general meeting by a majority of not less than 2/3 of the voting c ommon shareholders; or (b) consented to in writing by all common shareholders.

Annual General Meetings

Articles 10 and 11 of our Articles, together w ith applicable corporate and securities laws, conta in the conditions governing the manner in which annual and extraordinary general meetings of shareholders are called, including notice, proxy so licitation, and quorum requirements. Annual general meetings are called and scheduled up on decision by the Board of Directors. The Board of Directors may convene an extraordinary general meeting of the shareholders. Holders of common shares may not requisition an ext raordinary meeting of the shareholders. All meetings may be attended by regis tered shareholders or persons who hold powers of at torney or proxies given to them by registered shareholders.

Foreign Ownership Limitation

Our Articles do not contain limitations on the rights of non-residents, foreigners, or other groups to own common shares.

Change of Control

There are no provisions in our Articles that w ould have the effect of delaying, deferring or prev enting a change in control, or that operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Share Ownership Reporting Obligation

Our Articles do not contains provisions govern ing the threshold above which shareholder ownership must be disclosed.

Differences between Canadian and U.S. Law

The securities laws of the Province of British Columbia require disclosure of shareholdings by (i ) persons who are our directors or senior officers; and (ii) a person who has direct or indir ect beneficial ownership of, control or direction o ver, or a combination of direct or indirect beneficial ownership of and control or direction ov er our securities carrying more than 10% of the vot ing rights attached to all of our outstanding voting securities.

The threshold of share ownership percentage re quiring disclosure of ownership is higher in the ho me jurisdiction of British Columbia than the U.S. where U.S. securities law prescribes a 5% threshold for ownership disclosure.

Capital Changes

There are no conditions imposed by our Article s governing changes in our share capital that are m ore stringent than is required by law.

**C. Material Contracts**

We have not entered into any material contract s other than in the ordinary course of business and other than those described in Item 4. "Information on the Company" or elsewhere in this a nnual report.

**D. Exchange Controls**

There currently are no laws, decrees, regulati ons, or other legislation in Canada that restrict t he export or import of capital, or impose foreign exchange controls or affect the remittance of interest, dividends, or other payments to non-re sident holders of our common shares, other than the withholding tax requirements describ ed under subsection E. "Taxation" below. Canada has no system of exchange controls.

There are no limitations imposed by Canadian l aw or our Articles on the right of non-resident to hold our common shares, other than as provided by the *Investment Canada Act*, as amended (the "Act"), as amended by the *North American Free Trade Agreement Implementation Act* (Canada), and the *World Trade Organization (WTO) Agreement Implementa tion Act*. The Act requires notification and, in certain cas es, advance review and approval by the Government of Ca nada of the acquisition by a "non-Canadian" of "con trol of a Canadian business", all as defined in the Act. Generally, the threshold for review will be higher in monetary terms for a member of the WTO or NAFTA.

**E. Taxation**

| |
|---|
| We encourage you to consult with your own tax advisors about the Canadian and U.S. federal, state , provincial, local, and foreign tax consequences of purchasing, owning, and disposing o f our common shares. |

***Certain Canadian Federal Income Tax Consequences***

The discussion under this heading summarizes t he principal Canadian federal income tax consequenc es of acquiring, holding and disposing of shares of common shares for a sharehol der who is not a resident of Canada but is a reside nt of the United States and who will acquire and hold a corporation's common shares as c apital property for the purposes of the Income Tax Act (Canada) (the "Canadian Tax Act"). This summary does not apply to a shareholder who carries on business in Canada through a "perma nent establishment" situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the share holder's holding is effectively connected with such permanent establishment or fixe d base. This summary is based on the provisions of the Canadian Tax Act and the regulations thereunder and on an

understanding of the administrative practices of Ca nada Customs & Revenue Agency, and takes into accou nt all specific proposals to amend the Canadian Tax Act or regulations made by the Min ister of Finance of Canada as of the date hereof. **This discussion is general only and is not, nor is it intended to provide a detailed analy sis of the income tax implications of any particula r shareholder's interest. Investors are advised to obtain independent advice from a sha reholder's own Canadian and U.S. tax advisors with respect to income tax implications pertinent to their particular circumst ances.** The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended (the "Convention").

Dividends on Common Shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him o r her by a corporation resident in Canada. The corp oration is responsible for the withholding of tax at the source. The Convention li mits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to suc h shareholder and to 5 percent if the shareholder i s also a corporation that beneficially owns at least 10 percent of the voting stock of the payor corporation.

The amount of a stock dividend (for tax purpos es) would generally be equal to the amount by which the paid up or stated capital of the corporation had increased by reason of the payment of such dividend. The corporation will furnish addi tional tax information to shareholders in the event of such a dividend. Interest paid or d eemed to be paid on the corporation's debt securiti es held by non-Canadian residents may also be subject to Canadian withholding tax, depend ing upon the terms and provisions of such securities and any applicable tax treaty.

The Convention generally exempts from Canadian income tax dividends paid to a religious, scientif ic, literary, educational or charitable organization or to an organization constituted and operated exclusively to administer a pension, retir ement or employee benefit fund or plan, if the organization is a resident of the United States and is exempt from income tax under the laws of the United States.

Dispositions of Common Shares

Under the Canadian Tax Act, a taxpayer's capital gain or capital loss from a disposition of a com mon share is the amount, if any, by which his or her proceeds of disposition exceed (or are e xceeded by, respectively) the aggregate of his or h er adjusted cost base of the share and reasonable expenses of disposition. The capital gai n or loss must be computed in Canadian currency usi ng a weighted average adjusted cost base for identical properties. The capital gains ne t of losses included in income since October 17, 20 00 is 50%. The amount by which a shareholder's capital loss exceeds the capital gain in a year may be deducted from a capital gain real ized by the shareholder in the three previous years or any subsequent year, subject to certain restrictions in the case of a corporate shareholder.

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capita l gains, and may deduct allowable capital losses realized on a disposition of "taxabl e Canadian property." Common shares of a corporatio n will constitute the taxable Canadian property of a shareholder at a particular time if t he shareholder used the shares in carrying on busin ess in Canada, or if at any time in the five years immediately preceding the disposition, 25% or more of the issued shares of any class or series i n the capital stock of the corporation belonged to one or more persons in a group comprisi ng the shareholder and persons with whom the shareh older and persons with whom the shareholder did not deal at arm's length and in certain other circumstances.

The Convention relieves United States resident s from liability for Canadian tax on capital gains derived on a disposition of shares, unless: (i) the value of the shares is derived principally from "real property" in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to prod uction; (ii) the shareholder was resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time dur ing the 10 years immediately preceding, the disposition and the shares were owned by him when he ceased to be resident in Canada; or (iii) t he shares formed part of the business property of a "permanent establishment" that the holder has or had in Canada within the 12 months pr eceding the disposition.

***Certain United States Federal Income Tax Consequences***

The following is a discussion of material Unit ed States federal income tax consequences generally applicable to a U.S. Holder (as defined below) of our common shares. This discussion does n ot cover any state, local or foreign tax consequenc es. This discussion is based upon the sections of the Internal Revenue Code of 1986, as a mended ("the Code"), Treasury Regulations, publishe d Internal Revenue Service ("IRS") rulings, published administrative positions of the IRS and

court decisions that are currently applicable, any or all of which could be materially and adversely c hanged, possibly on a retroactive basis, at any time. In addition, the discussion does not cons ider the potential effects, both adverse and benefi cial, or recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time.

U.S. Holders

As used herein, a U.S. Holder includes a holde r of common shares who is a citizen or resident of the United States, a corporation (or an entity which has elected to be treated as a corpora tion under Treasury Regulations created or organize d in or under the laws of the United States or of any political subdivision thereof, any estate other than a foreign estate (as defined in the Code) or, a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described in the Code. This summary does not address the tax consequences to, and U.S. Holder do es not include, persons subject to special provisio ns of federal income tax law, such as tax-exempt organizations, qualified retirement plan s, financial institutions, insurance companies, rea l estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a "functional currency" other than the U.S. dollar, shareholders who hold common shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their common shares through the exercise of employee stoc k options or otherwise as compensation for services . This summary is limited to U.S. Holders who own common shares as capital assets. Th is summary does not address the consequences to a p erson or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any opti ons, warrants or other rights to acquire common shares.

Distribution on Common Shares

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares are required to include in gross income for United States federal income tax p urposes the gross amount of such distributions equa l to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the corporation has current or accumulated earnings and profits, without reduction for any Can adian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against t he U.S. Holder's United States federal income tax l iability or, alternatively, may be deducted in computing the U.S. Holder's United States federa l taxable income (see more detailed discussion at " Foreign Tax Credit" below). To the extent that distributions exceed current or accumul ated earnings and profits of the corporation, they will be treated first as a return of capital up to the U.S. Holder's adjusted basis in the commo n shares and thereafter as gain from the sale or ex change of the common shares. Dividend income will be taxed at marginal tax rates applicab le to ordinary income while preferential tax rates for long-term capital gains are applicable to a U.S. Holder which is an individual, estate or trust. There are currently no preferential tax rate s for long-term capital gains for a U.S. Holder which is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient int o U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currenc y equal to its U.S. dollar value on the date of rec eipt. Gain or loss may be recognized upon a subsequent sale of other disposition of the foreign currency, including the exchange for U.S. dollars.

Dividends paid on the common shares of a corpo ration will not generally be eligible for the divid ends received deduction provided to corporations receiving dividends from certain Unite d States corporations. A U.S. Holder which is a cor poration may, under certain circumstances, be entitled to a 70% deduction of th e United States source portion of dividends receive d from a corporation (unless the corporation qualifies as a "foreign personal holdin g company" or a "passive foreign investment company ", as defined below) if such U.S. Holder owns shares representing at least 10% of the voting power and value of the corporation. The ava ilability of this deduction is subject to several complex limitations which are beyond the sc ope of this discussion.

Foreign Tax Credit

A U.S. Holder who pays (or has withheld from d istributions) Canadian income tax with respect to t he ownership of common shares may be entitled, at the option of the U.S. Holder, to e ither a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credi t reduces United States Federal income taxes on a d ollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and applies to all foreign income taxes (or taxes in lieu of income tax) paid by (or withheld from) the U.S. Holder during the year. The re are significant and complex limitations which apply to the credit, among which

is the general limitation that the credit cannot ex ceed the proportionate share of the U.S. Holder's U nited States income tax liability that the U.S. Holder's foreign source income bears to his/he r or its worldwide taxable income. The various item s of income and deduction must be classified into foreign and domestic sources. Compl ex rules govern this classification process. In add ition, this limitation is calculated separately with respect to specific classes of inco me such as "passive income", "high withholding tax interest", "financial services income", "shipping income", and certain other classification s of income. Dividends distributed will generally c onstitute "passive income" or, in the case of certain U.S. Holders, "financial services i ncome" for these purposes. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and holders and prospective holders of common shares o f should consult their own tax advisors regarding their individual circumstances.

For individuals whose entire income from sourc es outside the United States consists of qualified passive income whose total amount of creditable foreign taxes paid or accrued during the taxable year does not exceed US$300 (US$600 in the case of a joint return) and for whom an election is made under section 904(j), the limitation on credit does not apply.

Disposition of Common Shares

A U.S. Holder will recognize gain or loss upon the sale of common shares equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received , and (ii) the tax basis in the common shares. Pref erential tax rates apply to long-term capital gains of U.S. Holders which are individuals , estates, or trusts. This gain or loss will be cap ital gain or loss if the common shares are capital assets in the hands of the U.S. Holder, whi ch will be a short-term or long-term capital gain o r loss depending upon the holding period of the U.S. Holder. Gains and losses are netted and combined according to special rules in arriving at the overall capital gain or loss for a particular tax year. Deductions for net capital los ses are subject to significant limitations. For U.S . Holders which are not corporations, any unused portion of such net capital loss may be carr ied over to be used in later tax years until such n et capital loss is thereby exhausted, but individuals may not carry back capital losses. For U.S. Holders which are corporations (other than cor porations subject to Subchapter S of the Code), an unused net capital loss may be carried ba ck three years from the loss year and carried forwa rd five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Foreign Personal Holding Company

If at any time during a taxable year more than 50% of the total combined voting power or the tota l value of the our outstanding shares is owned, actually or constructively, by five or fewer individuals who are citizens or residents of the U nited States and 60% (50% after the first tax year) or more of our gross income for such year was derived from certain passive sources, then we would be treated as a "foreign personal holding company." In that event, U.S. Holders that hold common shares would be required to include in gross income for such year their allocable portions of such passive income to the extent we do not actually distribute such income.

We do not believe we currently have the status of a "foreign personal holding company". However, there can be no assurance that we will not be considered a foreign personal holding compan y for any future taxable year.

Passive Foreign Investment Company

As a foreign corporation with U.S. Holders, we potentially could be treated as a passive foreign investment company ("PFIC"), as defined in Section 1297 of the Code, depending upon the per centage of our income which is passive, or the perc entage of our assets which are held for the purpose of producing passive income. We believe we currently are a PFIC.

The rule governing PFICs can have significant tax effects on U.S. Holders of foreign corporations . These rules do not apply to non-U.S. Holders. Section 1297 of the Code defines a PFIC as a corporation that is not formed in the United Sta tes and, for any taxable year, either (i) 75% or more of its gross income is "passive income" , which includes interest, dividends and certain re nts and royalties or (ii) the average percentage, by fair market value (or, if the corpor ation is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of "passive income" is 50% or more. The taxation of a US Holder who owns stock in a PFIC is extremely complex and is therefore beyond the sc ope of this discussion. U.S. Holders should consult with their own tax advisors with regards to the impact of these rules.

Controlled Foreign Corporation

If more than 50% of the voting power of all cl asses of our common shares entitled to vote is owne d, actually or constructively, by citizens or residents of the United States, United States partnerships, corporations, or estates or trusts other

than foreign estates or trusts, each of whom own actually or constructively own 10% or more of the total combined voting power of all classes of our capital stock ("United States Shareholders") , then we would be a "controlled foreign corporation" (CFC). We do not believe we currently are a CFC.

The CFC classification would affect many complex results, one of which is that certain income of a CFC would be subject to current U.S. tax. The United States generally taxes United States Shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States Shareholders are generally treated as having received a current distribution out of the CFC's Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC's earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of a corporation which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the corporation (accumulated only while the shares were held by the United States Shareholder and while the corporation was a CFC attributable to the shares sold or exchanged). If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to the United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign corporations ending with or within such taxable years of United States Shareholders. The PFIC provisions continue to apply in the case of a PFIC that is also a CFC with respect to the U.S. Holders that are less than 10% shareholders.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

Any document referred to in this annual report may be inspected at our principal executive offices at Suite 1100, 1199 West Hastings Street, Vancouver, British Columbia Canada V6E 3T5 during regular business hours.

Various documents referenced in this annual report also are included as exhibits to this annual report in accordance with Item 19 of this Form 20-F. We are required to file periodic reports and other information with the SEC. You may read and copy any materials we file with the SEC at its Public Reference Room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC further maintains an internet website at www.sec.gov that contains reports and other information about issuers like us who file electronically with the SEC.

In addition, we file various documents on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com as required by applicable Canadian law and stock exchanges.

**I. Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK**

The significant market risks to which the Company is exposed are currency, interest rate and other price risk.

Currency risk

The Company operates internationally and is exposed to foreign currency risk from fluctuations in exchange rates between the Canadian dollar and various currencies, primarily U S dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

The Company is exposed to currency risk as follows:

| | December 31, 2013 | | December 21, 2012 | |
|---|---|---|---|---|
| | US | Pesos | US | Pesos |
| Cash | $ 809,466 | 70,656 | $ 1,715,415 | 183,410 |
| Other receivables and restricted cash | 34,500 | - | 69,000 | - |
| Due from exploration partners | 45,510 | - | 616,899 | - |
| Reclamation bond | 171,160 | - | 171,160 | - |
| Accounts payable and accrued liabilities | (306,991) | (74,114) | (343,686) | (760,178) |
| Loan payable | (638,160) | - | - | - |
| Derivative liabilities - warrants | (1,102,970) | - | (784,988) | - |
| Net foreign exposure | $ (987,485) | (3,458) | $ 1,443,800 | (576,768) |

Based on the above net foreign currency exposures a s at December 31, 2013, and assuming all other vari ables remain constant, a 5% weakening or strengthening of the Canadian dollar a gainst a) the US dollar would result in a change of $49,374 (2012 - $73,930) in the Company's loss; and b) the Mexican peso would have no material impact in the Company's loss for the year.

Interest rate risk

The Company's cash and cash equivalents are held in bank accounts that earn interest at variable inter est rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact o n the estimated fair value as of December 31, 2013. The Company manages interest rat e risk by maintaining an investment policy that foc uses primarily on preservation of capital and liquidity.

Other price risk

Other price risk is the risk that the future cash f lows of a financial instrument will fluctuate due t o changes in market prices, other than those arising from currency risk or interest rate risk. The Company's marketable securities are carried at market value and are therefore directly affected by fluctuations in the market val ue of the underlying securities. The Company's sens itivity analysis suggests that a 10% change in market prices would have no material impact on the value of the Company's marketable securities.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUIT Y SECURITIES

Not applicable.

## PART II

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUE NCIES

None.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Effective June 12, 2013, in accordance with th e vote of shareholders at the 2013 Annual General M eeting on June 12, 2013, we adopted a rights plan applicable to our common shares (the "R ights Plan"). This Rights Plan replaced an earlier shareholder rights plan dated June 18, 2008. Under the Rights Plan, we issued one right fo r no consideration in respect of each outstanding c ommon share. All common shares we subsequently issue during the term of the Rights Pl an will have one right represented for each common share. The term of the Rights Plan is through the first annual meeting of shareholders he ld after June 12, 2018. The rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of our common shares w ithout complying with the Rights Plan or without a waiver from our Board of Directors.

Each right entitles the registered holder to p urchase from us on the occurrence of certain events , one common share at the price of CDN$100 per share, subject to adjustment (the "Exer cise Price"). If a "Flip-in Event" as defined in th e Rights Plan occurs, each right would then entitle the registered holder to receive, upon payment of the Exercise Price, that number of

common shares that have a market value at the date of that occurrence equal to twice the Exercise Price. The rights are not exercisable until the "Separation Time" as defined in the Rights Plan.

The purpose of the Rights Plan is to ensure, to the extent possible, that all shareholders are treated equally and fairly in connection with any take-over bid or similar proposal to acquire our common shares. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for our Board of Directors to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in us. The Rights Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so.

An offeror can avoid that potential by making an offer that either: (i) qualifies as a "Permitted Bid" under the Rights Plan, and therefore meets certain specified conditions (including a minimum deposit period of 90 days) which aim to ensure that all shareholders are treated fairly and equally; or (ii) does not qualify as a "Permitted Bid" but is negotiated with and has been exempted by our Board of Directors from the application of the Rights Plan in light of the opportunity to bargain for agreed terms and conditions to the offer that are believed to be in the best interests of shareholders.

Under current Canadian securities laws, any party wishing to make a formal take-over bid for our common shares is required to leave the offer open for acceptance for at least 35 days. To qualify as a "Permitted Bid" under the Rights Plan, however, a take-over bid must remain open for acceptance for not less than 90 days. The Board of Directors believes that the statutory minimum period of 35 days may be insufficient for the directors to: (i) evaluate a take-over bid (particularly if the consideration consists, wholly or in part, of shares of another issuer); (ii) explore, develop and pursue alternative transactions that could better maximize shareholder value; and (iii) make reasoned recommendations to the shareholders. The additional time afforded under a "Permitted Bid" is intended to address these concerns by providing the Board of Directors with a greater opportunity to assess the merits of the offer and identify other possible suitors or alternative transactions, any by providing other bidders or proponents of alternative transactions with time to come forward with competing, and potentially superior, proposals.

## ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the fiscal year covered by this report. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") as such term is defined in Rule 13a-15(f) or Rule 15d-15(f) promulgated under the Exchange Act. Management (under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer) assessed the effectiveness of our ICFR as of December 31, 2013, using the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO 1992 framework). Based on this assessment, our management concluded that our ICFR were effective as of December 31, 2013.

This annual report does not include an attestation report of our registered public accounting firm regarding our ICFR. Our management's report was not subject to attestation by our registered independent public accounting firm because we are not an accelerated filer or large accelerated filer and exempt as an Emerging Growth Company.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee financial expert**

Our Board of Directors has determined that Ant hony Walsh is an "audit committee financial expert" serving on the Audit Committee of the Company within the criteria prescribed under SE C and NYSE MKT rules. Our Board of Directors has de termined that Anthony Walsh is an "independent" director as that term is defined u nder NYSE MKT rules.

**Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics for all our directors, officers, and employ ees. It includes a Code of Ethical Conduct for Financial Managers that applies to our principal executive officer, principal financial of ficer, principal accounting officer or controller, or persons performing similar functions . The Code of Business Conduct and Ethics is availa ble in the Governance section of our website at www.quaterraaresources.com. All applicab le amendments to and waivers of the Code of Busines s Conduct Ethics governing our principal executive officer, principal financial of ficer, principal accounting officer or controller, or persons performing similar functions will be posted on our website and furnished to the SEC o n Form 6-K.

**Item 16C. Principal Accountant Fees and Services**

The following table shows the aggregate fees b illed to us by our principal accountant Smythe Ratc liffe LLP, Chartered Accountants, in each of the last two fiscal years.

| | Year ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Audit Fees | $52,000 | $101,000 |
| Audit-Related Fees | Nil | $900 |
| Tax Fees | $6,000 | $3,000 |
| All Other Fees | - | - |

*Audit fees* are the aggregate fees billed by the Company's independent auditor for the audit of the Company's annual consolidated financial statements, reviews of interim consolidated financi al statements and attestation services that are pro vided in connection with statutory and regulatory filings or engagements.

*Audit-related fees* are fees charged by the Company's independent audit or for assurance and related services that are reas onably related to the performance of the audit or review of financial statements and are not reported under "Audit Fees" .

*Tax fees* are fees for professional services rendered by the Company's independent auditors for tax compliance a nd tax advice on actual or contemplated transactions.

The Audit Committee recommends to the Board of the Directors the external auditor to perform audit, review, and attestation services. The Audit Committee pre-approves all non-audit services provided by our external auditors, and pre-approve d the tax fees and the all other fees listed in the table above.

**Item 16D. Exemptions from the listing standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**Item 16F. Change in Registrant's Certifying Account ant**

Not applicable.

**Item 16G. Corporate Governance**

Not applicable.

**Item 16H. Mine Safety Disclosure**

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (The "Dodd-Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the fiscal year ended December 31, 2013, the Company had no such specified health and safety violations, orders or citations, related assessments or legal actions, mining-related fatalities, or similar events in relation to the Company's United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act.

## PART III

**ITEM 17. FINANCIAL STATEMENTS**

Index to Consolidated Financial Statements:



**ITEM 18. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 19. EXHIBITS**

The following documents are filed as exhibits to this annual report on Form 20-F:

| Exhibit Number | Description of Exhibit |
|---|---|
| 1 | Articles of Quaterra Resources Inc., dated December 13, 2007 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A (0-55319) filed February 5, 2014). |
| 2 | Shareholder Rights Plan, dated June 12, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A (0-55319) filed February 5, 2014). |
| 4 | Amended and Restated Service Agreement between Manex Resource Group and Quaterra Resources Inc. dated as of February 9, 2012 as amended September 1, 2013 and March 1, 2014. |
| 8 | List of Subsidiaries |
| 12.1 | Certification of the principal executive officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2 | Certification of the principal financial officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

| Exhibit Number | Description of Exhibit |
|---|---|
| 13.1 | Certification of the principal executive officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2 | Certification of the principal financial officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**QUATERRA RESOURCES INC.**

Dated: March 31, 2014

By: /s/ Scott Hean
Scott B. Hean
Chief Financial Officer


**(An Exploration Stage Company)**

# Audited Consolidated Financial Statements

**December 31, 2013**

**(Expressed in Canadian Dollars)**

**Management's Responsibility for Financial Reporting**

The management of Quaterra Resources Inc. is respon sible for the integrity and fair presentation of th e financial information contained in this annual report. Where appropriate, the financial inf ormation, including consolidated financial statemen ts, reflects amounts based on management's best estimates and judgments. The cons olidated financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the Int ernational Accounting Standards Board. Financial in formation presented elsewhere in the annual report is consistent with that disclosed in the consolidated financial statements.

Management is responsible for establishing and main taining adequate internal control over financial re porting. Management has established and maintains a system of internal accounting contr ol designed to provide reasonable assurance that as sets are safeguarded from loss or unauthorized use, financial information is reliable and accurate and transactions are properly recorde d and executed in accordance with management's authorization. This system includes es tablished policies and procedures, the selection an d training of qualified personnel and an organization providing for appropriate delegatio n of authority and segregation of responsibilities. Any system of internal control over financial reporting, no matter how well designed, h as inherent limitations. Therefore, even those syst ems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors oversees management's respon sibility for financial reporting and internal contr ol systems through an Audit Committee, which is composed entirely of independen t directors. The Audit Committee meets periodically with management and the independent auditors to review the scope and result s of the annual audit and to review the consolidate d financial statements and related financial reporting and internal control matters be fore the consolidated financial statements are appr oved by the Board of Directors and submitted to the Company's shareholders.

Smythe Ratcliffe LLP, an independent registered pub lic accounting firm, appointed by the shareholders, has audited the Company's consolidated financial statements in accordance wit h Canadian generally accepted auditing standards an d the standards of the Public Company Accounting Oversight Board (United States) and has expressed its opinion in the independent au ditors' report.

*"Steven Dischler" (signed)*

Steven Dischler
President and Chief Executive Officer

*"Scott Hean" (signed)*

Scott Hean
Chief Financial Officer

March 24, 2014
Vancouver, British Columbia, Canada

## INDEPENDENT AUDITORS' REPORT

**To the Shareholders of Quaterra Resources Inc.**

We have audited the accompanying consolidated financial statements of Quaterra Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2013, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quaterra Resources Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013, 2012 and 2011 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, Canada
March 24, 2014

**Quaterra Resources Inc.**
**Consolidated Statements of Financial Position**
**(Expressed in Canadian dollars)**

| | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $ 894,265 | $ 1,795,555 |
| Restricted cash | | 42,444 | 80,148 |
| Amounts due from exploration partners | | 49,468 | 613,753 |
| Taxes receivable | | 6,709 | 30,294 |
| Prepaids and deposits | | 42,864 | 220,164 |
| | | 1,035,750 | 2,739,914 |
| Non-current assets: | | | |
| Marketable securities | 4 | 4,167 | 12,333 |
| Equipment | 5 | 150,374 | 224,876 |
| Mineral properties | 6 | 44,865,186 | 70,165,561 |
| Reclamation bonds | | 182,046 | 170,287 |
| **Total assets** | | **$ 46,237,523** | **$ 73,312,971** |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 540,655 | $ 656,115 |
| Due to related parties | 11 | - | 26,990 |
| Loan payable | 12 | 689,038 | - |
| | | 1,229,693 | 683,105 |
| Non-current liability | | | |
| Derivative liability - warrants | 7 | 1,191,784 | 774,673 |
| **Total liabilities** | | 2,421,477 | 1,457,778 |
| **Shareholders' Equity** | | | |
| Share capital | 8 | 116,135,532 | 115,816,740 |
| Share-based payment reserve | | 19,480,034 | 19,020,057 |
| Deficit | | (91,799,520) | (62,981,604) |
| | | 43,816,046 | 71,855,193 |
| **Total liabilities and shareholders' equity** | | **$ 46,237,523** | **$ 73,312,971** |

**Approved on behalf of the Board of Directors:**

*"Steven Dischler" (signed)*
Steven Dischler

*"Anthony Walsh" (signed)*
Anthony Walsh

(See the accompanying notes to consolidated financial statements)

**Quaterra Resources Inc.**
**Consolidated Statements of Comprehensive Loss**
**(Expressed in Canadian dollars)**

| | Note | Years ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **General administrative expenses** | | | | |
| Administration and general office expense | | $ 657,751 | $ 726,113 | $ 701,670 |
| Consulting | | 258,350 | 366,364 | 644,757 |
| Depreciation | | 74,503 | 133,595 | 149,810 |
| Directors' fees | | - | 126,971 | 110,294 |
| Investor relations and communications | | 39,821 | 224,409 | 309,110 |
| Personnel costs | | 806,269 | 1,135,986 | 1,152,792 |
| Professional fees | | 643,417 | 595,753 | 429,889 |
| Share-based payments | 9(a) | 459,977 | 1,046,517 | 2,846,707 |
| Transfer agent and regulatory fees | | 104,838 | 142,561 | 149,580 |
| Travel and promotion | | 80,518 | 53,137 | 203,086 |
| | | (3,125,444) | (4,551,406) | (6,697,695) |
| **Exploration partner administration income** | | 26,442 | 90,847 | 181,417 |
| **Foreign exchange loss** | | (7,866) | (166,914) | (189,877) |
| **Fair value gain on derivative liability** | 7 | 2,363,892 | - | - |
| **Gain/(loss) on disposal of mineral properties, net** | 6 | (1,735,714) | 820,712 | - |
| **General exploration costs** | | (67,448) | (182,852) | (506,297) |
| **Impairment of mineral properties** | 6 | (26,212,984) | - | (4,183,224) |
| **Impairment of marketable securities** | | (8,166) | (66,533) | - |
| **Recovery (write-off) of equipment** | | - | 39,954 | (38,525) |
| **Interest (expense) income** | | (50,628) | 57,985 | 169,662 |
| **Write-off of taxes receivable** | | - | (895,769) | - |
| **Net loss for the year** | | (28,817,916) | (4,853,976) | (11,264,539) |
| **Unrealized loss on marketable securities** | | (8,166) | (15,334) | (34,000) |
| **Transfer on impairment of marketable securities** | | 8,166 | 66,533 | - |
| **Comprehensive loss for the year** | | $ (28,817,916) | $ (4,802,777) | $ (11,298,539) |
| **Loss per share - basic and diluted** | | $ (0.17) | $ (0.03) | $ (0.08) |
| **Weighted average number of common shares outstanding** | | 172,117,694 | 155,378,395 | 144,227,216 |

(See the accompanying notes to consolidated financial statements)

**Quaterra Resources Inc.**
**Consolidated Statements of Cash Flows**
**(Expressed in Canadian dollars)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| **Operating activities** | | | |
| Net loss for the year | $ (28,817,916) | $ (4,853,976) | $ (11,264,539) |
| Items not involving cash: | | | |
| Depreciation | 74,503 | 133,595 | 149,810 |
| Fair value gain on derivative liability | (2,363,892) | - | - |
| Gain/(loss) on sale of mineral property | 1,735,714 | (820,712) | - |
| Loan interest accrued | 50,877 | - | |
| Share-based payments | 459,977 | 1,046,517 | 2,846,707 |
| Shares issued for services | - | 30,000 | 90,000 |
| Impairment of mineral properties | 26,212,984 | - | 4,183,224 |
| Impairment of marketable securities | 8,166 | 66,533 | - |
| Unrealized loss (gain) on foreign exchange | (11,759) | 43,266 | 22,210 |
| Write-off of taxes and other receivables | - | 895,769 | - |
| Write-off of equipment | - | - | 38,525 |
| | (2,651,346) | (3,459,008) | (3,934,063) |
| Changes in non-cash working capital | | | |
| Taxes receivable | 23,585 | (14,796) | (626,826) |
| Prepaid and deposits | 177,300 | 37,324 | (4,452) |
| Accounts payable and accrued liabilities | 47,048 | (60,356) | 181,646 |
| Due to related parties | (26,990) | (20,894) | 6,659 |
| **Cash used in operating activities** | (2,430,403) | (3,517,730) | (4,377,036) |
| **Financing activities** | | | |
| Shares and warrants issued for cash, net of issue costs | 3,004,795 | 3,848,219 | 15,530,711 |
| Loan payable | 638,160 | - | - |
| Derivative liability- warrants | - | 774,673 | - |
| **Cash provided by financing activities** | 3,642,955 | 4,622,892 | 15,530,711 |
| **Investing activities** | | | |
| Expenditures on mineral properties | (4,205,935) | (13,397,677) | (17,345,625) |
| Due from exploration partners | 564,285 | (373,531) | 638,548 |
| Purchase of equipment | - | (9,676) | (318,787) |
| Reclamation bonds | - | 348,805 | (143,425) |
| Proceeds from disposal of mineral property | 1,490,104 | 1,980,381 | - |
| Restricted cash | 37,704 | 11,500 | (48,886) |
| **Cash used in investing activities** | (2,113,842) | (11,440,198) | (17,218,175) |
| **Effect of foreign exchange on cash** | - | (16,730) | (394) |
| **Decrease in cash during the year** | (901,290) | (10,351,766) | (6,064,894) |
| **Cash , beginning of year** | 1,795,555 | 12,147,321 | 18,212,215 |
| **Cash, end of year** | $ 894,265 | $ 1,795,555 | $ 12,147,321 |
| **Supplemental cash flow information (Note 14)** | | | |

(See the accompanying notes to consolidated financial statements)

**Quaterra Resources Inc.**
**Consolidated Statements of Changes in Equity**
**(Expressed in Canadian dollars)**

| | Common Shares | | Share-based | Accumulated Other | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | payment reserve | Comprehensive Loss | Deficit | Total |
| Balance, December 31, 2010 | 136,464,161 | $ 95,800,950 | $ 15,643,693 | $ (17,199) | $ (46,863,089) | $ 64,564,355 |
| Common shares issued for cash, net of issue costs | 3,293,407 | 5,918,882 | | | | 5,918,882 |
| Exercise of options and warrants | 12,505,732 | 9,611,829 | | | | 9,611,829 |
| Common shares issued for services | 89,983 | 90,000 | | | | 90,000 |
| Fair value of options and warrants exercised | | 501,860 | (501,860) | | | - |
| Share-based payments | | | 2,846,707 | | | 2,846,707 |
| Unrealized loss on available-for-sale marketable securities | | | | (34,000) | | (34,000) |
| Net loss for the year | | | | | (11,264,539) | (11,264,539) |
| Balance, December 31, 2011 | 152,353,283 | 111,923,521 | 17,988,540 | (51,199) | (58,127,628) | 71,733,234 |
| Common shares issued for cash, net of issue costs | 10,541,571 | 3,848,219 | | | | 3,848,219 |
| Cancelled shares | (2,501) | | | | | - |
| Common shares issued for services | 98,483 | 45,000 | (15,000) | | | 30,000 |
| Share-based payments | | | 1,046,517 | | | 1,046,517 |
| Unrealized loss on available-for-sale marketable securities | | | | (15,334) | | (15,334) |
| Impairment of available-for-sale marketable securities | | | | 66,533 | | 66,533 |
| Net loss for the year | | | | | (4,853,976) | (4,853,976) |
| Balance, December 31, 2012 | 162,990,836 | 115,816,740 | 19,020,057 | - | (62,981,604) | 71,855,193 |
| Common shares issued for cash, net of issue costs | 29,810,000 | 3,004,795 | | | | 3,004,795 |
| Common shares issued for mineral properties | 678,580 | 95,000 | | | | 95,000 |
| Derivative liability - warrants | | (2,781,003) | | | | (2,781,003) |
| Share-based payments | | | 459,977 | | | 459,977 |
| Unrealized loss on available-for-sale marketable securities | | | | (8,166) | | (8,166) |
| Impairment of available-for-sale marketable securities | | | | 8,166 | | 8,166 |
| Net loss for the year | | | | | (28,817,916) | (28,817,916) |
| **Balance, December 31, 2013** | **193,479,416** | **$ 116,135,532** | **$ 19,480,034** | **$ -** | **$ (91,799,520)** | **$ 43,816,046** |

(See the accompanying notes to consolidated financial statements)

**Quaterra Resources Inc.**
**Notes to Consolidated Financial Statements**
**For the years ended December 31, 2013, 2012 and 2011**
**(Expressed in Canadian dollars)**

## 1. Nature of operations and going concern

Quaterra Resources Inc. ("Quaterra" or the "Company") is engaged in the acquisition and exploration of precious and base metal mineral properties in the United States and Mexico. Quaterra is a publicly listed company incorporated in Canada under the *Business Corporations Act* (British Columbia). The Company's shares are listed on the TSX Venture Exchange ("QTA") and the New York Stock Exchange "MKT" ("QMM") until February 6, 2014 (Note 18(a)). The head office, principal address and records office of the Company are located at 1100 – 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5. The Company's registered office is 1710 - 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3.

The Company is in the process of exploring its mineral properties and has not yet determined whether its mineral properties contain economically recoverable mineral reserves. The underlying value and the recoverability of the amounts recorded as mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete its acquisition, exploration and development of its mineral properties or receive proceeds from joint venture partners' contributions. The carrying value of the Company's mineral properties does not reflect current or future values.

The Company incurred a net loss of $28,817,916 for the year ended December 31, 2013 (2012 - $4,853,976; 2011 - $11,264,539). As at December 31, 2013, the Company had an accumulated deficit $91,799,520 with a working capital deficiency of $193,943.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern and meet its commitments as they become due, including completion of the acquisition, exploration and development of its mineral properties, is dependent on the Company's ability to obtain the necessary financing. Although management is confident that it will be able to raise sufficient funds there is no assurance at the date these consolidated financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty, which casts substantial doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Management is in the process of raising additional capital to finance operations through equity financing, joint venture partner arrangements and/or proceeds from disposal of its interests in certain mineral properties. Subsequent to December 31, 2013, the Company disposed of its uranium properties for $500,000 (note 18(c)).

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead, pay its liabilities, and maintain its mineral interests.

These consolidated financial statements were approved by the board of directors for issue on March 24, 2014.

**Quaterra Resources Inc.**
**Notes to Consolidated Financial Statements**
**For the years ended December 31, 2013, 2012 and 2011**
**(Expressed in Canadian dollars)**

## 2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2013. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of presentation and consolidation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale and derivative financial liability, which are stated at their fair values. These consolidated financial statements are presented in Canadian dollars, the Company and subsidiaries' functional currency.

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled (directly or indirectly) by the Company (its subsidiaries) including *Quaterra Alaska Inc.* and *Singatse Peak Services LLC* – incorporated in the United States, *Minera Agua Tierra S.A. de C.V.* – incorporated in Mexico, and *Quaterra International Limited* – incorporated in the British Virgin Islands. All significant intercompany transactions and balances have been eliminated.

b) Accounting estimates and judgments

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations. The areas where assumptions, estimates and judgments are significant to the consolidated financial statements relate to, but are not limited to, the following:

(i) The recoverability of the carrying value of the mineral properties: the estimation of the impairment indicators involves the application of a number of significant judgments and estimates to certain variables including metal price trends, plans for properties, and the results of exploration and evaluation to date;
(ii) Fair value of derivative liabilities and share- based payments: the fair value of derivative liabilities that are not traded in an active market is determined by using a valuation technique. Management makes estimates and utilizes assumptions in determining the fair value for share- based payments, warrants, and the (gain) loss on the revaluation of the derivative liability;
(iii) The Company applies judgment in assessing the functional currency of each entity consolidated in these financial statements; and
(iv) Deferred tax assets: the assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

**2. Significant accounting policies, continued**

c) Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities are translated at exchange rates prevailing at each reporting date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in net loss.

d) Marketable securities

Marketable securities in entities over which the Company has no significant influence are classified as available-for-sale and are carried at quoted market value. Resulting unrealized gains or losses are reflected in other comprehensive loss, while realized gains or losses are reflected in net loss.

e) Reclamation bonds

Certain cash is held in long-term reclamation bonds to support future reclamation work in the United States. No interest is earned on these bonds.

f) Equipment

Equipment is measured at cost less accumulated depreciation and impairment losses. Cost comprises expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment, and are recognized in net loss.

Depreciation is calculated over the estimated useful life of the assets using the declining-balance method at an annual rate of 30% for vehicles and field equipment, and up to 75% for computer equipment.

**2. Significant accounting policies, continued**

g) Mineral properties

The cost of acquiring mineral properties and related exploration and development costs are deferred on an individual area of interest basis until the properties are placed into production, sold or determined to be impaired. Once a license to explore an area has been secured, directly attributable expenditures on exploration and evaluation activities are capitalized to mineral properties. Costs incurred to acquire an interest in a mineral property are capitalized as a mineral property acquisition cost. Costs incurred prior to obtaining the right to explore are expensed as incurred. Proceeds from the sale of properties or cash proceeds received from farm-out agreements are recorded as a reduction of the related mineral interest, with any excess proceeds accounted for in net loss.

Management reviews the carrying value of capitalized acquisition and exploration costs at least annually to consider whether there are any conditions that may indicate impairment.

h) Unit offering

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issuance costs are netted against share proceeds.

i) Share-based payments

The Company has a stock option plan that is described in note 9. Share-based payments to employees are measured at the fair value of the equity instruments issued and are amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payment reserve. If and when the stock options or warrants are ultimately exercised, the applicable amount of reserve is transferred to share capital.

j) Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on income per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**2. Significant accounting policies, continued**

k) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in net loss, except to the extent related to items recognized directly in equity or in other comprehensive loss.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

l) Financial instruments

Financial instruments are classified as one of the following: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive loss and reported in shareholders' equity.

The Company's available-for-sale assets are marketable securities.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss accordingly.

The Company's warrants that have an exercise price denominated in US dollars, which is different to the Company's functional currency, are treated as derivative liabilities at fair value determined using the Black-Scholes option pricing model. Changes in fair values have been recorded as gains or losses in net loss.

**3. Recent and future accounting changes**

**Recent accounting pronouncements**

The IASB issued a number of new and revised accounting standards, which are effective for annual periods beginning on or after January 1, 2013. These standards include the following:

- IAS 1 – Presentation of Financial Statements
- IFRS 10 – Consolidated Financial Statements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

The adoption of the above standards had no impact on the Company's consolidated financial statements.

**3. Recent and future accounting changes, continued**

**Future accounting pronouncements**

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised standards and interpretations, which are not yet effective for the relevant reporting periods.

The following standards have been published by the IASB, but have not yet been adopted by the Company:

IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

IFRS 9 *Financial Instruments* (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

**3. Recent and future accounting changes, continued**

IFRS 9 *Financial Instruments* (*Hedge Accounting* and amendments to IFRS 9, IFRS 7 and IAS 39) (2013)

A revised version of IFRS 9 which:

- Introduces a new chapter to IFRS 9 on hedge account ing, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake ri sk management activities when hedging financial and non-financial risk exposures
- Permits an entity to apply only the requirements in troduced in IFRS 9 (2010) for the presentation of g ains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss
- Removes the mandatory effective date of IFRS 9 (201 0) and IFRS 9 (2009), leaving the effective date op en pending the finalization of the impairment and classification a nd measurement requirements. Notwithstanding the re moval of an effective date, each standard remains available for application.

This standard has no stated effective date.

*Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable for the Company on January 1, 2014.

The IASB made certain improvements to the following standards:

- IFRS 2—Amends the definitions of "vesting conditi on" and "market condition" and adds definitions for "performance condition" and "service condition"
- IFRS 3—Require contingent consideration that is c lassified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8—Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13—Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to me asure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38—Clarify that the gross amount o f property, plant and equipment is adjusted in a ma nner consistent with a revaluation of the carrying amount
- IAS 24—Clarify how payments to entities providing management services are to be disclosed.

**Quaterra Resources Inc.**
**Notes to Consolidated Financial Statements**
**For the years ended December 31, 2013, 2012 and 2011**
**(Expressed in Canadian dollars)**

**3. Recent and future accounting changes, continued**

Applicable to the Company beginning January 1, 2015.

The Company has not early-adopted these standards, amendments and interpretations; however, the Company is currently assessing the impact of these standards or amendments on the consolidated financial statements of the Company.

**4. Marketable securities**

The following table presents the fair value of the Company's shares of Redtail Metals Corp. ("Redtail") and Auramex Resource Corp. ("Auramex"):

| | December 31, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Cost | Accumulated unrealized gains (losses) | Carrying value | Cost | Accumulated unrealized gains (losses) | Carrying value |
| Redtail | 66,667 | $ 38,866 | $ (38,199) | $ 667 | $ 38,866 | $ (32,533) | $ 6,333 |
| Auramex | 100,000 | 40,000 | (36,500) | 3,500 | 40,000 | (34,000) | 6,000 |
| | | $ 78,866 | $ (74,699) | $ 4,167 | $ 78,866 | $ (66,533) | $ 12,333 |

The fair value of these marketable securities has been determined by reference to their closing quoted share price at the reporting date.

During the years ended December 31, 2013 and 2012, management made the assessment that its marketable securities had experienced a prolonged decline in their fair values. Accordingly, an impairment of $8,166 (2012 - $66,533) was transferred from accumulated other comprehensive loss and recognized in net loss.

**Quaterra Resources Inc.**
**Notes to Consolidated Financial Statements**
**For the years ended December 31, 2013, 2012 and 2011**
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## 5. Equipment

| | Computer equipment | Field Equipment | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, December 31, 2011 | $ 148,031 | $ 174,870 | $ 481,615 | $ 804,516 |
| Additions during the year | - | - | 9,676 | 9,676 |
| Balance, December 31, 2012 | 148,031 | 174,870 | 491,291 | 814,192 |
| Additions during the year | - | - | - | - |
| Balance, December 31, 2013 | $ 148,031 | $ 174,870 | $ 491,291 | $ 814,192 |
| **Accumulated depreciation** | | | | |
| Balance, December 31, 2011 | $ 112,714 | $ 95,853 | $ 247,154 | $ 455,721 |
| Depreciation for the year | 27,398 | 23,705 | 82,492 | 133,595 |
| Balance, December 31, 2012 | 140,112 | 119,558 | 329,646 | 589,316 |
| Depreciation for the year | 5,939 | 17,362 | 51,202 | 74,502 |
| Balance, December 31, 2013 | $ 146,051 | $ 136,920 | $ 380,848 | $ 663,818 |
| **Carrying value** | | | | |
| At December 31, 2012 | $ 7,919 | $ 55,312 | $ 161,645 | $ 224,876 |
| At December 31, 2013 | $ 1,980 | $ 37,950 | $ 110,443 | $ 150,374 |

**Quaterra Resources Inc.**
**Notes to Consolidated Financial Statements**
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## 6. Mineral properties

The total deferred acquisition and exploration costs for mineral properties for the year ended December 31, 2013 and 2012 were as follows:

| | United States | | | | | | Mexico | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Mineral Properties** | **MacArthur Copper** | **Yerington Copper** | **Bear Copper** | **Herbert Gold Project** | **Uranium Properties** | **Other Properties** | **Nieves** | **Other Properties** | |
| **Acquisition** | | | | | | | | | |
| Balance, December 31, 2012 | $ 3,077,838 | $ 3,193,862 | $ - | $ 136,492 | $ 4,962,589 | $ 2,054,693 | $ 1,623,310 | $ 2,472,887 | $ 17,521,671 |
| Additions during the year | 285,470 | 174,656 | 340,646 | 14,123 | 110,996 | 315,536 | 131,124 | 553,149 | 1,925,700 |
| Recovery - Goldcorp | - | - | - | - | - | - | - | (24,226) | (24,226) |
| Disposal of mineral properties | - | - | - | - | - | - | - | (572,796) | (572,796) |
| Impairments | - | - | - | - | (4,573,585) | (334,200) | - | (2,429,014) | (7,336,799) |
| Balance, December 31, 2013 | 3,363,308 | 3,368,518 | 340,646 | 150,615 | 500,000 | 2,036,029 | 1,754,434 | - | 11,513,550 |
| **Exploration** | | | | | | | | | |
| Balance, December 31, 2012 | 18,783,675 | 6,521,961 | - | 1,512,046 | 7,867,075 | 717,824 | 4,692,483 | 12,548,826 | 52,643,890 |
| Geological | 509,680 | 328,365 | 12,013 | 30,916 | 137,279 | 40,301 | 82,070 | 513,817 | 1,654,441 |
| Geophysical | 51,761 | 9,975 | 353 | - | 6,171 | 177 | 30,817 | 7,676 | 106,930 |
| Geochemical | - | 2,672 | - | 227 | - | - | 932 | - | 3,831 |
| Drilling | - | - | - | 11,002 | - | - | - | - | 11,002 |
| Technical Studies | 112,243 | 174,228 | - | 6,896 | - | - | 1,281 | - | 294,648 |
| Other | 44,117 | 10,719 | - | 18,875 | 5,004 | - | 4,220 | 87,110 | 170,045 |
| Additions during the year | 717,801 | 525,959 | 12,366 | 67,916 | 148,454 | 40,478 | 119,320 | 608,603 | 2,240,897 |
| Recovery - Goldcorp | - | - | - | - | - | - | - | (3,945) | (3,945) |
| Disposal of mineral properties | | | | | | | | (2,653,022) | (2,653,022) |
| Impairments | - | - | - | - | (8,015,529) | (360,193) | - | (10,500,462) | (18,876,184) |
| Balance, December 31, 2013 | 19,501,476 | 7,047,920 | 12,366 | 1,579,962 | - | 398,109 | 4,811,803 | - | 33,351,636 |
| **Total acquisition and exploration Balance, December 31, 2013** | **$ 22,864,784** | **$ 10,416,438** | **$ 353,012** | **$ 1,730,577** | **$ 500,000** | **$ 2,434,138** | **$ 6,566,237** | **$ -** | **$ 44,865,186** |

**Quaterra Resources Inc.**
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**For the years ended December 31, 2013, 2012 and 2011**
**(Expressed in Canadian dollars)**

**6. Mineral properties, continued**

| | United States | | | | | Mexico | | Total |
|---|---|---|---|---|---|---|---|---|
| **Mineral Properties** | **MacArthur Property** | **Yerington Property** | **Alaska** | **Uranium Properties** | **Other Properties** | **Nieves** | **Other Properties** | |
| **Acquisition** | | | | | | | | |
| Balance, December 31, 2011 | $ 2,358,534 | $ 2,803,906 | $ 120,357 | $ 4,761,909 | $ 2,384,460 | $ 1,535,959 | $ 1,737,922 | $ 15,703,047 |
| Additions during the year | 719,304 | 389,956 | 16,135 | 200,680 | 619,285 | 87,351 | 740,915 | 2,773,626 |
| Disposal of mineral property | - | - | - | - | (949,052) | | - | (949,052) |
| Recovery - Goldcorp | - | - | - | - | - | - | (5,950) | (5,950) |
| Balance, December 31, 2012 | 3,077,838 | 3,193,862 | 136,492 | 4,962,589 | 2,054,693 | 1,623,310 | 2,472,887 | 17,521,671 |
| **Exploration** | | | | | | | | |
| Balance, December 31, 2011 | 17,144,368 | 3,623,164 | 554,119 | 7,728,123 | 763,148 | 3,920,039 | 9,604,778 | 43,337,739 |
| Geological | 832,756 | 940,564 | 193,948 | 108,831 | 68,838 | 189,143 | 1,282,023 | 3,616,103 |
| Geophysical | 50,798 | 31,251 | 4,468 | - | 88,588 | 140,709 | 17,288 | 333,102 |
| Geochemical | 79,293 | 416,847 | 38,266 | - | 7,867 | 82,048 | 491,926 | 1,116,247 |
| Drilling | 6,390 | 624,681 | 529,490 | - | - | 219,016 | 877,730 | 2,257,307 |
| Technical studies | 475,364 | 640,819 | 1,055 | 14,132 | - | 130,778 | 140,919 | 1,403,067 |
| Other | 194,706 | 244,635 | 190,700 | 15,989 | - | 10,750 | 169,780 | 826,560 |
| Additions during the year | 1,639,307 | 2,898,797 | 957,927 | 138,952 | 165,293 | 772,444 | 2,979,666 | 9,552,386 |
| Disposal of mineral property | - | - | - | - | (210,617) | - | - | (210,617) |
| Recovery - Goldcorp | - | - | - | - | - | - | (35,618) | (35,618) |
| Balance, December 31, 2012 | 18,783,675 | 6,521,961 | 1,512,046 | 7,867,075 | 717,824 | 4,692,483 | 12,548,826 | 52,643,890 |
| **Total acquisition and exploration Balance, December 31, 2012** | **$ 21,861,513** | **$ 9,715,823** | **$ 1,648,538** | **$ 12,829,664** | **$ 2,772,517** | **$ 6,315,793** | **$ 15,021,713** | **$ 70,165,561** |

**6. Mineral properties, continued**

The Company is in the business of acquiring, exploring, and developing mineral properties in North America. Exploration programs are carried out through the Company's management expertise and the use of consultants and contractors. Continuation of these programs is dependent on the Company's ability to raise additional funds from the market and continuing participation of its exploration partners.

a) MacArthur Property, Nevada

Pursuant to an agreement dated September 13, 2005, and subsequently amended, with North Exploration LLC ("North Exploration"), the Company acquired the right to earn an interest in certain unpatented mining claims covering the former MacArthur copper-oxide mine, in the Yerington Mining District of Lyon County, Nevada. The Company may elect to acquire the property by making the following staged payments totaling US$2,207,000, of which $424,000 was outstanding as of December 31, 2013:

(i) US$635,000 and 150,000 shares by January 15, 2010 (paid and issued)
(ii) US$524,000 on or before January 15, 2011 (paid)
(iii) US$524,000 plus interest at the rate of 6% per annum by January 15, 2012 (paid)
(iv) US$100,000 plus $31,440 interest by January 15, 2013 (paid)
(v) US$212,000 plus interest by March 31, 2014 and January 15, 2015 (subsequent to year-end an amendment was made so that US$212,000 is due on July 1, 2014 and the interest portion of US$36,940 will be due as at March 31, 2014).

The property is subject to a 2% net smelter return royalty ("NSR"), which may be reduced to 1% for US$ 1,000,000.

b) Yerington Property, Nevada

On April 27, 2011, the Company completed the acquisition of the Yerington property after more than three years of legal and environmental due diligence. The purchase price was US$500,000 cash, $250,000 of the Company's common shares and a 2% NSR capped at US$7.5 million on commencement of commercial production.

The Yerington property is a historic mining site formerly owned and operated by the Anaconda Company, Atlantic Richfield Company ("ARC") and Arimetco. The property has a history of environmental releases, which are outlined in an environmental site assessment undertaken for the Company by the Chambers Group and subsequently updated by SRK Consulting. The Yerington mine site is a *Comprehensive Environmental Response Compensation and Liability Act* ("CERLA") site, but has not been listed on the National Priorities List.

Prior to closing on the property, the Company obtained Bona Fide Prospective Purchaser ("BFPP") Reasonable Steps letters from the US Environmental Protection Agency ("EPA"), the State of Nevada Department of Environmental Protection ("NDEP") and the Bureau of Land Management ("BLM"). These letters define reasonable steps that the Company could take to retain its status as a BFPP.

**6. Mineral properties, continued**

b) Yerington Property, Nevada, continued

During the year ended December 31, 2012, the Company entered into a voluntary settlement agreement (the "Agreement") with the EPA to assist in upgrading the fluid management system (the "System"), which manages fluids from the former Arimetco operations at the property. Under the terms of the Agreement, the Company agreed to complete a study of the System in order to determine additional repairs or modifications that may be required and to work with the EPA to determine which, if any, of the conclusions of the study should be implemented. As part of the Agreement, the Company obtained a site-wide covenant not to sue from the EPA for existing environmental contamination related to historic mining operations at the site. ARC is the primary responsible party for the existing environmental liabilities at the site due to its ownership of Anaconda and past operations at the site.

The first phase of the System upgrade was completed in 2012. The study was completed by the Company's contractor in June 2013. The Company is cooperating with the EPA in the construction of the additional ponds through the provision of property at the site to construct the new ponds. The Company will prepare a final report for submission to the EPA so that they are issued a Notice of Completion for the work performed pursuant to the Agreement.

c) Bear Copper Deposit, Nevada

On March 20, 2013, the Company entered into an exclusive exploration agreement with Desert Pearl Farms, LLC for an option to purchase the surface rights, mineral rights and surface water rights to the Hunewill Ranch property in Lyon County, Nevada. To earn the exclusive right to conduct mineral exploration on the property, the Company is required to make annual payments of US$1,480,000 according to the following schedule:

(i) US$115,000 upon execution of agreement (paid)
(ii) US$125,000 on or before March 20, 2014 (paid on March 14, 2014)
(iii) US$140,000 on or before March 20, 2015
(iv) US$160,000 on or before March 20, 2016
(v) US$185,000 on or before March 20, 2017
(vi) US$215,000 on or before March 20, 2018
(vii) US$250,000 on or before March 20, 2019
(viii) US$250,000 on or before March 20, 2020.

The Company has the right and option to purchase a 100% interest in the property at any time on or before March 19, 2021 ("purchase closing date") for additional payments including a production royalty on the purchase closing date.

On November 12, 2013, the Company entered into a similar exploration agreement with Yerington Mining LLC for a property known as Yerington Mining property located in Lyon County, Nevada. To earn the rights and conduct mineral exploration on the property, the Company is required to make an annual payment of US$200,000 (2013 payment made) in the first two years and then US$100,000 on each anniversary date until November 12, 2021.

**6. Mineral properties, continued**

d) Butte Valley Copper Prospect, Nevada

On January 1, 2011, the Company entered into an option agreement with North Exploration to acquire 41 mining claims in White Pine County, Nevada, known as the Butte Valley property. The Company can earn a 100% interest in the claims by making staged payments totaling US$1 million.

On August 2, 2012, the Company entered into a purchase and sale agreement with Freeport-McMoRan Mineral Properties Inc. ("FMMP") for Butte Valley at gross proceeds of US$2 million. A gain of $820,712 from the sale was recorded in the year ended December 31, 2012.

On October 2, 2012, the Company received net proceeds of $1,737,692 from FMMP, after mineral claim payments and settlement fees. The Company retains the right, if and when FMMP completes a positive feasibility study, to elect to have either a 30% working interest in the project or a 2% NSR.

On July 29, 2013, the Company received an acquisition bonus of US$1,000,000 ($1,038,400) from FMMP related to the sale of the Butte Valley property sold to FMMP in October 2012. The acquisition bonus was contingent on FMMP acquiring certain other mineral properties in 2013 and was recognized in net loss.

e) Wassuk Copper Project, Nevada

On May 26, 2011, the Company entered into a mining lease with an option to purchase agreement with Majuba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$1.61 million:

(i) US$140,000 on or before May 26, 2011 (paid)
(ii) US$130,000 on or before May 26, 2012 (paid)
(iii) US$120,000 on or before August 23, 2013 (paid)
(iv) US$110,000 each on or before May 26, 2014 and 2015
(v) US$200,000 each on or before anniversary date until May 26, 2020.

The Company is required to incur a total of US$300,000 exploration work on or before May 26, 2014 and any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so incurred.

The project is subject to a 3% NSR upon commencing commercial production of which 1% can be bought for US$1,500,000.

f) South West Tintic, Utah

Pursuant to an agreement made in March 2007, the Company acquired the right to earn an interest in certain unpatented mining claims, which forms part of the South West Tintic Claims in Juab County, Utah. To earn a 100% interest, the Company was required to make US$1,000,000 option payments (US$60,000 paid) over ten years.

**6. Mineral properties, continued**

f) South West Tintic, Utah, continued

Effective May 29, 2009, subsequently amended; the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation ("FMEC") of Phoenix, Arizona, for the property. Under the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in this property by making a US$275,000 property payment (paid) and by spending US$4,725,000 on exploration over five years.

The property is subject to a 2% NSR on commencement of commercial production, which may be reduced to 1% for US$1,000,000.

g) Goldfield East Claims, Nevada

On June 15, 2011, the Company entered into an option agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Esmeralda County, Nevada, for US$1,000,000 over ten years:

(i) US$20,000 upon execution (paid)
(ii) US$20,000 each on or before June 15, 2012 (paid) and 2013 (paid)
(iii) US$40,000 on or before June 15, 2014
(iv) US$50,000 each on or before June 15, 2015 and 2016
(v) US$100,000 each on or before June 15, 2017, 2018 and 2019
(vi) US$250,000 each on or before June 15, 2020 and 2021.

The property is subject to a 2% NSR on commencement of commercial production.

h) Poker Brown Project, Nevada

On August 24, 2012, the Company entered into an option agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Pershing County, Nevada, for US$1,000,000 payable over ten years as follows:

(i) US$20,000 upon execution (paid)
(ii) US$20,000 each on or before August 24, 2013 (paid) and 2014
(iii) US$40,000 on or before August 24, 2015
(iv) US$50,000 each on or before August 24, 2016 and 2017
(v) US$100,000 each on or before August 24, 2018, 2019 and 2020
(vi) US$250,000 each on or before August 24, 2021 and 2022.

A 2.5% NSR is required upon commercial production of which 0.5% can be purchased at US$500,000.

**6. Mineral properties, continued**

i) Reveille Property, Nevada

Pursuant to an agreement made in August 2010, the Company entered into a lease with an option to purchase certain mining claims known as the Reveille claims in Nye County, Nevada. The total consideration is US$1,000,000 over ten years as follows:

(i) US$20,000 each execution (paid) and on or before July 31, 2011 (paid) and 2012 (paid)
(ii) US$40,000 on or before November 30, 2013 (paid)
(iii) US$50,000 each on or before July 31, 2014 and 2015
(iv) US$100,000 each on or before July 31, 2016 and 2017
(v) US$100,000 on or before July 31, 2018
(vi) US$250,000 each on or before July 31, 2019 and 2020.

The property is subject to a 2% NSR on commencement of commercial production of which 1% can be bought down for US$1,000,000.

j) Herbert Gold Project, Alaska

Pursuant to a joint venture agreement in June 2010 with Grande Portage Resources Ltd. ("Grande Portage"), the Company maintains a 35% interest in the Herbert Gold property while Grande Portage earned a 65% interest by having spent US$1,250,000 by June 15, 2012. The two parties bear their proportionate share of the costs for the further exploration and development of the property. If any party does not contribute their proportionate share of such costs, then the joint venture agreement includes a dilution formula whereby if any party's interest is reduced to 10% or less, its interest will be automatically converted into a 1% NSR, which may be acquired by the other party at any time for US$1,000,000.

Pursuant to an agreement made in November 2007, the Company, and subsequent to June 2010 the joint venture between Quaterra and Grande Portage, is required to make annual payments of US$12,000 from November 2007 to 2011 (paid), US$20,000 from November 2012 (paid to date) to 2017, and US$30,000 from November 2018 and every consecutive anniversary thereafter.

The property is subject to a NSR on commencement of commercial production as follows:

(i) 3.0% on gold prices less than US$400/ounce
(ii) 3.5% on gold prices between US$401/ounce and US $500/ounce
(iii) 4.0% on gold prices between US$501/ounce and US$600/ounce
(iv) 5.0% on gold prices above US$601/ounce.

k) Cave Peak Molybdenum Prospect, Texas

Pursuant to an option agreement made in March 2007, the Company may acquire a 100% interest in certain prospect permits. The option payments are as follows: US$230,000 on or before March 27, 2010 (paid); US$150,000 on or before March 27, 2011 (paid by FMEC); and US$220,000 on or before March 27, 2012 (paid by FMEC).

**6. Mineral properties, continued**

k) Cave Peak Molybdenum Prospect, Texas, continued

On July 24, 2009, the Company acquired a mining lease with the state of Texas for 19 years for a total of US$120,462 (US$30,462 paid); US$35,000 is due upon the submittal of an initial plan of operations to conduct exploration; and US$55,000 on submittal of a supplemental plan of operations to conduct mining. If production has not commenced before one year of the date of the lease, the lease will be terminated unless delay payments are made on anniversary dates during the lease term as follows:

(i) US$26,190 on July 24, 2010 (paid)
(ii) US$26,190 on each anniversary date between 2011 and 2013 (all paid by FMEC)
(iii) US$39,280 on each anniversary date between 2014 and 2018
(iv) US$78,560 on each anniversary date between 2019 and 2023
(v) US$104,750 on each anniversary date between 2024 and 2027.

Effective November 1, 2010, as amended February 3, 2012, the Company entered into an option agreement with FMEC, which allows FMEC to earn 70% of this property by paying future land and lease holding costs and by spending US$5,000,000 in exploration expenditures by December 31, 2016. Except for the 2011 land holding costs, which are a firm commitment, all other exploration expenditures are optional.

This property is subject to a production royalty of 6.25% on commencement of commercial production with an annual advanced minimum royalty ("AMR") of US$500,000.

l) Nieves Silver Concessions, Mexico

The Company owns equal interest in the Nieves silver property located in northern Zacatecas, Mexico with its US-based joint venture partner, Blackberry Ventures 1, LLC ("Blackberry"). All work plans are made in consultation with the joint venture partner, Blackberry, which contributes its share of ongoing exploration costs plus a 10% administration fee. As at December 31, 2013, Blackberry owed $49,468 (2012 - $613,753) for their share of exploration expenditures, which has subsequently been received by the Company.

The Nieves concessions are subject to a maximum 3% NSR to the original concession holders, which the Company may purchase at any time for US$2,000,000. In addition, Kennecott Exploration Company, the optionor in the initial Underlying Agreement, retained a 2% NSR on certain core claims and 1% on certain peripheral claims. On January 24, 2007, this NSR was purchased by Royal Gold Inc. Commencing January 26, 2004; an AMR payment of US$75,000 is due to the concession holders until the commencement of commercial production.

**6. Mineral properties, continued**

m) Goldcorp – Investment Framework Agreement ("IFA")

On January 29, 2010, the Company entered into an IFA with Goldcorp to fund the Company's mining properties in central Mexico totaling US$10,000,000 over a two year period. In April 2012, the IFA was extended to January 29, 2013 for $2,480,000 through the issue of 4,000,000 common shares of the Company to Goldcorp.

During the year ended December 31, 2013, the IFA was further amended to extend the expiration for designation of Advanced Exploration Properties from January 2014 to January 2016. The amended terms include: i) lowering spending requirements to earn a 2% NSR from $2,000,000 over the first two years to $1,000,000 over the first three years; ii) lowering the minimum annual expenditure requirement after three years from $1,000,000 to $250,000; iii) allowing Goldcorp to pool expenditures from other projects to one project to meet the earn-in requirement described above.

On September 18, 2013, the Company announced the sale of three of its properties in central Mexico to Goldcorp for a total cash consideration of US$435,000 ($451,074) including taxes, which resulted in a loss of $2,774,114. The Company will retain a 2% NSR on each property for a maximum amount of US$2,000,000 per property.

n) Impairments

In 2013, management assessed the Company's ability to continue exploration activities on all of its mineral properties and made a decision to focus exploration efforts only on certain key properties and allow other claims to lapse. Accordingly, the following mineral properties were fully impaired to net loss:

(i) Uranium properties – $12,589,114
(ii) Missouri Flat – $117,860
(iii) Copper Canyon – $576,533
(iv) All Mexico properties other than Nieves – $12,929,477.

o) Realization of assets

The Company's investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, and on the attainment of successful commercial production or from the proceeds of disposal. The attainment of commercial production is in turn dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the property interest, and upon future profitable production.

**6. Mineral properties, continued**

p) Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mineral properties. Although the Company has taken steps to ensure title to the mineral property in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

q) Environmental matters

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. With the exception of the Yerington property, the Company may also be held liable should environmental problems be discovered that were caused by former owners and operators. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

**7. Derivative liability – warrants**

During the year ended December 31, 2013, the Company issued 29,810,000 share purchase warrants (2012 - 6,541,571) as part of a private placement offering (Note 8).

As these warrants have an exercise price denominated in a currency that is different from the Company's functional currency, they are classified as derivative liabilities and carried at their fair values. Any changes in the fair value from period to period are recorded as a gain or loss in the results of operations for the year.

The fair value of each warrant was estimated to be US$0.089 on the date issued and subsequently remeasured at December 31, 2013 to be US$0.037 using the Black-Scholes option pricing model assuming an expected volatility of 100%, a risk-free interest rate of 1.07%, a dividend yield of 0% and an expected term of 2.7 years.

The fair value of each warrant issued in 2012 was estimated at US$0.12 on the date issued and subsequently re-measured at December 31, 2012 with no changes in fair value using the Black-Scholes option pricing model assuming an expected volatility of 85%, a risk-free interest rate of 1.10%, a dividend yield of 0% and an expected term of 2 years.

The subsequent re-measurement of the warrants issued in 2012 as at December 31, 2013 was calculated using the Black-Scholes option pricing model using an expected volatility of 91%, a risk-free interest rate of 1.07%, a dividend yield of 0% and an expected term of one year.

Option pricing models require the input of subjective assumptions including the expected price volatility, which was determined based on the historical volatility over the estimated life of the warrants. Changes in the assumptions can materially affect the fair value estimate.

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**7. Derivative liability – warrants, continued**

The following table sets out the changes in derivative liability warrants during the years ended December 31, 2013 and 2012:

| | Number of warrants | Fair value assigned | Weighted average exercise price | |
|---|---|---|---|---|
| At December 31, 2012 | 6,541,571 | $ 774,673 | USD | 0.53 |
| Issuance of derivative warrants | 29,810,000 | 2,781,003 | USD | 0.15 |
| Change in fair value estimates | - | (2,363,892) | | |
| At December 31, 2013 | 36,351,571 | $ 1,191,784 | USD | 0.22 |

**8. Share capital**

a) The Company has an unlimited number of common shares authorized without par value.

b) On September 13, 2013, the Company completed a non-brokered private placement for gross proceeds of US$2,981,000 ($3,125,425) at a unit price of US$0.10 and issued 29,810,000 units. Each unit consisted of one common share and one share purchase warrant of the Company exercisable at US$0.15, expiring September 13, 2016.

The gross proceeds of $3,125,425 were allocated to common shares in the amount of $344,422 and to warrants (derivative liability) in the amount of $2,781,003; $106,455 share issue costs were paid and allocated against the common share proceeds.

c) On December 28, 2012, the Company completed a non-brokered private placement for gross proceeds of US$2,289,550 ($2,259,462) at a unit price of US$0.35 and issued 6,541,571 units. Each unit consisted of one common share and one share purchase warrant exercisable at US$0.53, expiring December 28, 2014.

d) On April 12, 2012, the Company closed a private placement and issued 4,000,000 common shares for gross proceeds of $2,480,000 under the terms of the Amended and Restated IFA with Goldcorp. Share issue costs of $61,118 were incurred.

The original IFA entered into January 29, 2010 provided Goldcorp with an option to acquire a certain interest in the Company's central Mexico projects for US$10 million over two years. Pursuant to which, in February 2011, the Company issued 3,293,407 common shares and 1,646,703 share purchase warrants for gross proceeds of US$6,000,000 ($5,994,000) and, in February 2010, the Company issued 3,001,418 common shares and 1,500,709 share purchase warrants for gross proceeds of US$4,000,000 ($4,231,999).

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## 9. Share-based payments

a) Stock options

The Company has a stock option plan (the "Plan"), which is approved by the shareholders annually. The Plan is designed to attract and retain individuals and to reward them for current and expected future performance. Options generally are granted for a maximum term of five years and expire 90 days following the termination of the optionee's agreement. The exercise price for the options is set at the closing market price of the common shares on the grant date. The vesting period of options vary with terms determined by the board of directors. Under the Plan, the Company is authorized to grant stock options of up to 10% of the number of common shares issued and outstanding of the Company at any given time.

The following table presents changes in stock options for the years ended December 31, 2013 and 2012:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 14,010,000 | $ 1.16 | 11,460,000 | $ 1.53 |
| Granted | 3,955,000 | $ 0.16 | 3,695,000 | $ 0.47 |
| Expired | (1,655,000) | $ (2.47) | (1,145,000) | $ 2.61 |
| Outstanding, end of year | 16,310,000 | $ 0.78 | 14,010,000 | $ 1.16 |
| Exercisable, end of year | 15,710,000 | $ 0.81 | 13,635,000 | $ 1.17 |

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**9. Share-based payments, continued**

a) Stock options, continued

The following table summarizes information about the stock options outstanding by expiry dates:

| Exercise price | Fair Value | Expire Date | Options Outstanding December 31, 2013 | Options Outstanding December 31, 2012 |
|---|---|---|---|---|
| $ 3.45 | $ 2.05 | March 31, 2013 | - | 150,000 |
| $ 3.30 | $ 1.87 | June 19, 2013 | - | 905,000 |
| $ 0.98 | $ 0.52 | November 9, 2014 | 1,705,000 | 1,745,000 |
| $ 1.02 | $ 0.51 | November 9, 2014 | 2,095,000 | 2,095,000 |
| $ 2.00 | $ 1.22 | January 14, 2015 | - | 40,000 |
| $ 1.80 | $ 0.85 | April 1, 2015 | 100,000 | 100,000 |
| $ 1.76 | $ 0.97 | April 22, 2015 | 200,000 | 200,000 |
| $ 1.29 | $ 0.75 | August 9, 2015 | 1,535,000 | 1,605,000 |
| $ 1.55 | $ 0.90 | October 6, 2015 | 65,000 | 65,000 |
| $ 1.51 | $ 0.90 | November 3, 2015 | 100,000 | 100,000 |
| $ 0.60 | $ 0.12 | December 31, 2015 | 400,000 | 400,000 |
| $ 1.60 | $ 0.96 | March 24, 2016 | 275,000 | 305,000 |
| $ 1.25 | $ 0.74 | August 9, 2016 | 2,635,000 | 2,800,000 |
| $ 0.90 | $ 0.51 | October 24, 2016 | 300,000 | 300,000 |
| $ 0.50 | $ 0.32 | March 27, 2017 | 100,000 | 100,000 |
| $ 0.45 | $ 0.28 | June 28, 2017 | 2,845,000 | 3,100,000 |
| $ 0.16 | $ 0.12 | September 19, 2018 | 3,955,000 | - |
| Total stock options outstanding | | | 16,310,000 | 14,010,000 |

The weighted average remaining contractual life for options outstanding and exercisable on December 31, 2013 was 2.73 (2012 – 2.91) years and 2.65 (2012 – 2.90) years, respectively.

On February 3, 2014, 90,000 stock options at a weighted exercise price of $0.65 expired unexercised due to forfeiture.

The Company uses the following weighted average assumptions in the Black-Scholes option pricing model to fair value the options granted:

| | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Weighted average share price | $ 0.16 | $ 0.44 | $ 1.26 |
| Risk-free interest rate | 1.72% | 1.11% | 1.13% |
| Expected share price volatility | 96% | 82% | 89% |
| Expected option life in years | 5.0 | 3.9 | 4.0 |
| Forfeiture rate | 0% | 0% | 0% |
| Expected dividend yield | 0% | 0% | 0% |

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**9. Share-based payments, continued**

a) Stock options, continued

Volatility was determined based on the historical volatility over the estimated lives of the options.

The share-based payments expense is incurred as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Consultants | $ 96,559 | $ 368,835 | $ 1,078,605 |
| Directors and officers | 336,745 | 460,455 | 1,018,476 |
| Employees | 26,673 | 217,227 | 749,626 |
| | $ 459,977 | $ 1,046,517 | $ 2,846,707 |

b) Share purchase warrants

The following table presents changes in warrants for the years ended December 31, 2013 and 2012:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 8,188,274 | $ 0.88 | 9,009,512 | $ 1.94 |
| Issued | 29,810,000 | $ 0.15 | 6,541,571 | $ 0.53 |
| Expired | (1,646,703) | $ 2.27 | (7,362,809) | $ 1.87 |
| Outstanding, end of year | 36,351,571 | $ 0.23 | 8,188,274 | $ 0.88 |

The following summarizes information about the share purchase warrants as of December 31, 2013 and 2012:

| Expiry date | | Exercise price | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| February 7, 2013 | $ | 2.27 | - | 1,646,703 |
| December 28, 2014 | USD | 0.53 | 6,541,571 | 6,541,571 |
| September 13, 2016 | USD | 0.15 | 29,810,000 | - |
| | | | 36,351,571 | 8,188,274 |

**10. Compensation of key management**

Key management comprises directors and executive officers. Certain executive officers are entitled to termination benefits equal to up to two years' gross salary amounting to $1,600,000 in the event of a change of control. The Company has no post-employment benefits and other long-term employee benefits.

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## 10. Compensation of key management, continued

Compensation awarded to key management was as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Salaries and employee benefits | $ 607,322 | $ 918,297 | $ 805,770 |
| Directors' fees | - | 126,971 | 110,294 |
| Share-based payments (note 9(a)) | 336,745 | 460,455 | 1,018,476 |
| | $ 944,067 | $ 1,505,723 | $ 1,934,540 |

Per a board resolution in May 2013, until further notice, directors' fees were suspended and no longer accrued.

## 11. Related party transactions

The Company's related parties consist of companies owned by executive officers or directors. The following fees and expenses were incurred in the normal course of operations:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Manex Resources Group[(a)] | $ 463,024 | $ 535,349 | $ 514,577 |
| Lawrence Page Q.C. Law Corp[(b)] | 14,187 | 4,115 | 6,410 |
| Atherton Enterprises Ltd.[(c)] | 88,542 | 157,880 | 175,000 |
| | $ 565,753 | $ 697,344 | $ 695,987 |

a) Manex Resources Group ("Manex") is a private company owned by the Corporate Secretary that provides general office and administrative services. As of December 31, 2013, $nil (2012 - $26,374) was still owing in due to related parties.

b) Lawrence Page, Q.C. Law Corp. is a company owned by the Corporate Secretary that provides legal services. As of December 31, 2013, $nil (2012 - $616) was still owing in due to related parties.

c) Atherton Enterprises Ltd. is a private company owned by an officer that provides CFO services to the Company. Effective December 1, 2013, Mr. Scott Hean became a salaried employee of the Company.

## 12. Loan payable

During the year ended December 31, 2013, the former President and CEO of the Company, Tom Patton, advanced three loans to the Company in the principal amount of US$800,000 of which US$200,000 was repaid. The loans are unsecured, bear annual interest at 10% per annum and are repayable as follows:

a) US$500,000 due on demand;
b) US$100,000 due on December 5, 2013

The principal and interest amount owing at December 31, 2013 amounted to $689,038 (US$638,160). The loans were re-negotiated in March 2014 so that the entire balance of US$600,000 is now due on demand with a 40-day notice period.

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## 13. Commitments

a) On February 9, 2012, the Company renewed its service agreement with Manex for its Vancouver head office administration and corporate services at a monthly rate of $15,750 for office rent plus accounting and administration services provided at agreed market rates for a five-year term expiring August 31, 2017. The service agreement was amended September 1, 2013 to reduce the fee for services to a monthly rate of $11,667 and again on March 1, 2014 to reduce office rent to $8,000 per month. The Company may terminate the agreement by paying Manex the lesser of $96,000 or a total fee owing for the remainder of the term.

b) On March 1, 2011, the Company's US subsidiary entered into a lease agreement for its premises located in the city of Yerington, Nevada. The initial term of the lease is three years with an option to extend for an additional three years. The lease is currently extended to February 28, 2015 at US$3,400 per month.

c) As of December 31, 2013, the Company had the following commitments related to its office premises in Vancouver, British Columbia and Yerington, Nevada:

| | | |
|---|---|---|
| December 31, 2014 | $ | 146,522 |
| December 31, 2015 | | 103,232 |
| December 31, 2016 | | 96,000 |
| December 31, 2017 | | 64,000 |
| | $ | 409,754 |

## 14. Supplemental cash flow information

| For the years ended | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Non-cash items | | | |
| Mineral property expenditures included in accounts payable | $ 139,860 | $ 302,366 | $ 1,415,599 |
| Non-cash share issue costs | $ - | $ - | $ - |
| Shares received for mineral properties | $ - | $ - | $ - |
| Shares issued for mineral properties | $ 95,000 | $ - | $ - |

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## 15. Deferred income taxes

a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Loss for the year | $ 28,817,916 | $ 4,853,976 | $ 11,264,539 |
| Canadian statutory tax rate | 26.0% | 25.0% | 26.5% |
| Income tax benefit computed at statutory rates | 7,492,658 | 1,213,494 | 2,985,103 |
| Foreign tax rates different from statutory rates | (36,163) | 224,933 | 266,896 |
| Temporary differences | (12,239) | 887,107 | 311,553 |
| Change in timing differences | (2,996,296) | 427,291 | (1,316,464) |
| Rate difference between current and deferred taxes | 68,671 | (66,920) | 45,108 |
| Foreign exchange gains or losses | 1,600,854 | (531,660) | 345,176 |
| Permanent differences | (120,846) | (284,224) | (820,811) |
| Unused tax losses and tax offsets not recognized in tax asset | (5,996,639) | (1,870,021) | (1,816,561) |
| | $ - | $ - | $ - |

Effective April 1, 2013, the British Columbia provincial tax increased from 10% to 11% and the Canadian federal corporate tax rate remained unchanged at 15%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25% to 26%.

b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2013 and 2012 are presented below:

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets | | |
| Tax losses carried forward | $ 1,838,546 | $ 5,915,207 |
| Tax value over book value of equipment | - | 59,294 |
| Deferred tax assets | 1,838,546 | 5,974,501 |
| Deferred tax liability | | |
| Book value over tax value of mineral properties | (1,838,546) | (5,974,501) |
| Net deferred tax assets | $ - | $ - |

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## 15. Deferred income taxes, continued

c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the deferred tax assets will be recovered. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Non-capital losses | $ 42,394,557 | $ 22,770,000 |
| Share issue costs | 947,700 | 709,000 |
| Tax value over book value of mineral properties | 7,864,928 | 5,915,000 |
| Tax value over book value of equipment | 641,500 | 134,000 |
| Tax value over book value of investments | 37,400 | 33,000 |
| Unrecognized deductible temporary differences | $ 51,886,085 | $ 29,561,000 |

The Company's unused non-capital losses expire as follows:

| | Canada | United States | Mexico |
|---|---|---|---|
| 2014 - 2018 | $ 643,000 | $ - | $ 7,111,000 |
| 2019 - 2023 | - | 979,000 | 16,700,000 |
| 2024 - 2032 | 18,334,000 | 5,193,000 | - |
| Total | $ 18,977,000 | $ 6,172,000 | $ 23,811,000 |

## 16. Segmented information

The Company has one business segment, the exploration of mineral properties. The Company's significant non-current assets are distributed by geographic locations as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Property equipment | Mineral property | Property equipment | Mineral property |
| Mexico | $ 78,142 | $ 6,566,237 | $ 116,722 | $ 21,337,506 |
| U.S.A | 72,232 | 38,298,949 | 108,154 | 48,828,055 |
| Total | $ 150,374 | $ 44,865,186 | $ 224,876 | $ 70,165,561 |

## 17. Capital management and financial instruments

The Company considers its capital under management to consist of shareholders' equity. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

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**17. Capital management and financial instruments, continued**

The Company's objectives of capital management are intended to ensure the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013.

The Company designates the fair value of financial instruments according to the following:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company's activities expose it to a variety of risks arising from financial instruments. These risks and management's objectives, policies and procedures for managing these risks are disclosed as follows.

**The following is a summary classification of financial instruments as of December 31, 2013 and 2012:**

| December 31, 2013 | Loans and receivables | Available-for-sale | Held-for-trading | Other financial liabilities | Total carrying value |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | $ - | $ - | $ 894,265 | $ - | $ 894,265 |
| Restricted cash | 42,444 | | | | 42,444 |
| Amounts due from exploration partners | 49,468 | | | | 49,468 |
| Marketable securities | | 4,167 | | | 4,167 |
| Reclamation bonds | 182,046 | | | | 182,046 |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | | | | (540,655) | (540,655) |
| Loan payable | | | | (689,038) | (689,038) |
| Derivative liability - warrants | | (1,191,784) | | | (1,191,784) |
| | $ 273,958 | $ (1,187,617) | $ 894,265 | $ (1,229,693) | $ (1,249,087) |

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**17. Capital management and financial instruments, continued**

| December 31, 2012 | Loans and receivables | Available-for-sale | Held-for-trading | Other financial liabilities | Total carrying value |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | $ - | $ - | $ 1,795,555 | $ - | $ 1,795,555 |
| Restricted cash | 80,148 | | | | 80,148 |
| Amounts due from joint venture partners | 613,753 | | | | 613,753 |
| Marketable securities | | 12,333 | | | 12,333 |
| Reclamation bonds | 170,287 | | | | 170,287 |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | | | | (656,115) | (656,115) |
| Due to related parties | | | | (26,990) | (26,990) |
| Derivative liability - warrants | | (774,673) | | | (774,673) |
| | $ 864,188 | $ (762,340) | $ 1,795,555 | $ (683,105) | $ 1,214,298 |

**Fair value**

The Company's marketable securities measured at fair value were categorized in Level 1 at $4,167 (2012 -$12,333). The fair value of the Company's marketable securities is based on active market prices at the reporting date.

The derivative liability is measured at fair value and categorized in Level 2 at $1,191,784 (2012 - $774,673). The fair value of the derivative liability is based on the Black-Scholes option pricing model inputs disclosed in note 7, as determined at the reporting date.

The recorded amount for cash, restricted cash, amount due from exploration partners, amounts due from and to related parties, and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The carrying values of the reclamation bonds approximate their fair values, as these balances are redeemable on demand.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk.

*Currency risk*

The Company operates internationally and is exposed to foreign currency risk from fluctuations in exchange rates between the Canadian dollar and various currencies, primarily U S dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

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**17. Capital management and financial instruments, continued**

**Market risk, continued**

*Currency risk, continued*

The Company is exposed to currency risk as follows:

| | December 31, 2013 | | December 21, 2012 | |
|---|---|---|---|---|
| | US | Pesos | US | Pesos |
| Cash | $ 809,466 | 70,656 | $ 1,715,415 | 183,410 |
| Other receivables and restricted cash | 34,500 | - | 69,000 | - |
| Due from exploration partners | 45,510 | - | 616,899 | - |
| Reclamation bond | 171,160 | - | 171,160 | - |
| Accounts payable and accrued liabilities | (306,991) | (74,114) | (343,686) | (760,178) |
| Loan payable | (638,160) | - | - | - |
| Derivative liabilities - warrants | (1,102,970) | - | (784,988) | - |
| Net foreign exposure | $ (987,485) | (3,458) | $ 1,443,800 | (576,768) |

Based on the above net foreign currency exposures as at December 31, 2013 and 2012, and assuming all other variables remain constant, a 5% weakening or strengthening of the Canadian dollar against a) the US dollar would result in a change of $49,374 (2012 - $73,930) in the Company's loss; and b) the Mexican peso would have no material impact in the Company's loss for the year.

*Interest rate risk*

The Company's cash is held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of December 31, 2013. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

*Other price risk*

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from currency risk or interest rate risk. The Company's marketable securities are carried at market value and are therefore directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 10% change in market prices would have no material impact on the value of the Company's marketable securities.

*Credit risk*

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

**17. Capital management and financial instruments, continued**

**Market risk, continued**

*Credit risk, continued*

The Company's financial instruments that are exposed to credit risk and for which the balances represent the maximum exposure to credit risk are cash, restricted cash, amounts due from exploration partners, and taxes and other receivables. The Company manages its credit risk on cash and restricted cash by maintaining these balances at Canadian chartered banks and financial institutions that have high credit ratings assigned by international credit ratings agencies. The Company's credit risk associated with amounts due from exploration partners is minimized as a result of a strong and continuing working relationship with the partners. Taxes receivables include balances due from the Canadian federal government.

At December 31, 2012, management assessed the probability of recovering the non-current taxes receivable and determined that the probability of recovery was remote and, accordingly, recognized an impairment loss of $895,769 (2011 - $nil).

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. Accounts payable and accrued liabilities of $540,654 are due in the first quarter of fiscal 2014 and US$600,000 loans payable are due on demand.

**18. Subsequent events**

a) On February 6, 2014, after the close of trading, the Company's shares were delisted from the NYSE MKT following its voluntary delisting announced on January 17, 2014. The delisting from the NYSE MKT will not affect the listing of the shares on the TSX Venture Exchange. On February 7, 2014, the Company's common shares commenced trading on the OTCQX market under the symbol "QTRRF".

b) On March 1, 2014, the Company amended its service agreement with Manex for its Vancouver head office. The revised agreement indicates a revised rent of $8,000 per month, with no change to services or the expiry date.

c) On March 14, 2014, the Company completed the sale of its uranium properties located in the states of Arizona, Utah and Wyoming for gross proceeds of $500,000. These properties were considered impaired and written down during the year ended December 31, 2013. The sale will provide working capital and free up time and resources for the Company to focus on its core copper properties in Yerington district.